

FINANCIAL TIMES

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UK INDUSTRY
 Companies' go on
 a spending spree

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World News

Business Summary

Mandela's bungalow destroyed by arsonists

The home of Winnie Mandela, wife of the imprisoned African National Congress leader Nelson Mandela, was completely destroyed by fire yesterday.

No body was injured in the blaze, which engulfed the brick bungalow in a suburb of the South African black township of Soweto at about midday.

Mr Mandela was not at home at the time. Police and neighbours said the fire had been started deliberately.

Chemical weapons

The US disclosed the locations of five chemical weapons plants and explained in detail how it would go about destroying them. The declaration, at a 40-nation UN Conference on Disarmament, was intended to quicken talks on an international convention banning chemical arms. Page 16

Angola peace talks

The US State Department said Chester Crocker, assistant secretary for African affairs, would fly to Geneva on July 31 for consultations with Soviet delegates on the situation in Angola. A fourth round of peace talks is scheduled for early August in Geneva. Where three armies meet, Page 3

\$10m ransom paid

Mexican industrialist Fernando Senderos Mestre, seized by kidnappers on July 4, was freed after his family paid a \$10m ransom.

Airbus crash probe

Technical shortcomings were not to blame for last month's crash of an Airbus A320 airliner during a French airshow, said investigators. The main factor was that the aircraft was flying below the minimum height and speed stipulated in the flight manual. Page 15

Jordan scraps plan

Jordan scrapped its development plan for the Israeli-occupied West Bank amid growing speculation that it plans to dissociate itself from the occupied territories. Page 3

Thai premier quits

Major-General Chatchai Choon-havan's nomination for the Thai premiership was submitted after Gen Prem Tinsulanonda's surprise resignation. Page 3

Win for Ashdown

UK member of parliament Paddy Ashdown was overwhelmingly voted Social and Liberal Democrats' leader. He won 41,401 votes against former deputy Liberal leader Alun Beith with 15,202. Page 6

Landmine victim

Sergeant Michael Matthews, a patrol commander serving with the Parachute Regiment, died in hospital of injuries received in a landmine blast near Cullyhanna, Northern Ireland, on Wednesday.

Communists ejected

Turkish police ejected four West European communists, one a French parliamentarian, from the grounds of Prime Minister Turgut Ozal's official residence after the four were denied permission to see Ozal over the trial of two Turkish communists.

Peace convoy

A US "peace convoy" of 20 trucks protesting against Washington's policies in Central America arrived in Nicaragua after sneaking out of the US with a cargo of food, toys and medical supplies. Page 16

Two sacked at Norsk Hydro unit after losses

NORSK HYDRO, Norway's largest publicly quoted company, dismissed two senior employees in its Hydro Aluminium subsidiary's trading unit for alleged business misconduct revealed by an internal company audit. It disclosed DKK225m (\$33.5m) in trading losses at the unit. Page 17

PHILIPS, Dutch electronics giant, blamed a 44 per cent plunge in second-quarter earnings, to the lowest quarterly level in five years, on cut-throat competition from south-east Asia. For the first half, net income fell 20 per cent to Fl 388m (\$94m). Page 17

REVCOR D. S. once the biggest and fastest growing drug store chain in the US, went bankrupt less than 19 months after being taken private in a widely-applauded \$1.9bn leveraged buyout. Page 17

BTCC, British electric cables and construction group, has agreed to acquire the cable-making business of Cest Cavi, Italy's second largest cable manufacturer, in a deal worth \$30.4m (£10.5m). Page 17

YAMAICHI SECURITIES, one of Japan's Big Four stockbrokers, is linking with Lodestar Group, Wall Street mergers and acquisitions specialist, by taking a 25 per cent stake in Lodestar Partners, a joint venture to manage leveraged buyouts. Page 17

CHRYSLER, third largest US motor manufacturer, reported that net profit in the second quarter was \$350m compared with \$424m in the same period last year. Page 18

PAN AM, US airline group, announced a second-quarter loss of \$3m, against a second-quarter profit of \$10.5m last year. Page 18

ARIANE SPACE, French company which builds, operates and launches Western Europe's Ariane space rockets, said it would propose floating shares on the French stock exchange next year. Page 20

SUMITOMO BANK became the latest of Japan's large commercial banking groups to unveil a large-scale share issue in order to bring its capital adequacy in line with international standards. Page 20

CSR, Australian resources group, agreed to sell nearly all the remaining interests of its coal division, once among Australia's biggest, to Royal Dutch/Shell and the local Coal and Allied Industries for A\$285m (£US215m).

NESSAN MOTOR is to become the first Japanese automotive group to integrate its development and production units in Japan, Europe and the US with a global satellite-linked computer-aided design (CAD) network in order to speed up vehicle development and production overseas. Page 20

DIGITAL Equipment, world's leading manufacturer of mini-computers, managed a small improvement in its profits during the latest quarter, after the flat results of three months ago. Page 18

BCE, Canada's largest holding company, recorded strong second-quarter net earnings of C\$286m (£US23m) following higher contributions from its telephone services and equipment subsidiaries and sharply lower preferred stock dividends. Page 18

Heavy intervention fails to hold back sterling, dollar rise

By Simon Holbrow, Economics Staff, in London

STERLING and the dollar rose sharply on foreign exchange markets yesterday despite an estimated \$1bn of central bank intervention and a rise in official interest rates in West Germany.

The two currencies were buoyed by the prospect of sustained high- or possibly rising -interest rates in the US and Britain.

Yesterday before a panel US House of Representatives' banking committee, yesterday by Mr Alan Greenspan, chairman of the Federal Reserve Board, was also seen as positive for the dollar. He expressed surprise at the rise in inflation in the US during the second quarter of this year which was taken in the market as a signal that the Fed might further tighten monetary policy.

The decision yesterday by the Bundesbank, the West German central bank, to raise its Lombard emergency finance rate to 5 per cent from 4% per cent did little to engender currency market interest in the D-Mark.

Official interest rates in the Netherlands and Austria were also raised after the German

The central banks of Spain

and Italy also intervened to stop their currencies rising against the D-Mark. In total they purchased about DM500m (£650m), but to little avail. The Bank of Spain condemned the purchases.

In New York, currency traders said the Fed intervened when the dollar rose to a level about DM1.5650.

In his testimony before the House, Mr Greenspan indicated that a further appreciation of the dollar would work against the aim of resolving major trade imbalances. At the same time he indicated his strong opposition to any substantial devaluation in the dollar's value. The aim of policy should be the maintenance of "stability" in currency markets.

The pound closed in London at DM3.2125 against DM1.1925 on Wednesday, and at £1.7280 against £1.7250. The Bank of England's trade-weighted exchange index closed 0.3 higher at 76.8.

In London, the dollar closed at DM1.5645 compared with DM1.5640 on Wednesday and at £1.7235 compared with £1.7165. In New York the dollar closed at DM1.5645 (£1.5620), £1.72120 (7.285) and £1.7257 (13.158).

Bundesbank leaves few clues on liquidity

By Andrew Fisher in Frankfurt

WEST GERMANY's central bank, the Bundesbank, yesterday confined its step-by-step advance in interest rates by raising the Lombard emergency funding rate from 4.5 to 5 per cent, although it left dealers guessing as to whether it would inject more liquidity to the banking system in the next week so as to avoid further market tightness.

Although the Lombard rate had been generally expected since overnight money rates had risen to a six-month level, some economists expressed disappointment that the Bundesbank had not also decided to announce more action on liquidity. It will thus be under continued scrutiny next week when the next round of securities repurchase (repo) deals with commercial banks occur.

"We are disappointed that it

took no measures to supply liquidity," said Mr Peter Pletsch, an economist with Commerzbank. "It shows that the Bundesbank wants higher rates. The central bank could have increased rediscount rates or cut minimum reserve requirements.

Mr Peter Seipp, chairman of Volksbank, said on Wednesday he saw no economic reason for higher interest rates. The increase in prices had been much slower than expected official cost-of-living figures showed yesterday, only a 1 per cent rise in July compared to a year ago. So attempts to brake monetary expansion did not have to be too sharp.

However, Mr Seipp supported the recent actions of the Bundesbank in raising the repo rate from 3.25 to 4 per cent in recent weeks. The bank acted to dampen potential inflation, regain control over money supply and prevent trade surpluses from remaining too high. The Bundesbank said the Lombard increase reflected money market rate trends and tensions on the foreign exchange market.

Economists expect the repo rate to move again next week, partly to reflect the economic reasons for higher interest rates.

Although the Bundesbank replaces the DM50m (£11m) of repos that will expire,

"If less is made available, the repo rate could go up to 45 per cent," reckoned Mr Michael Hof of Manufacturers Hanover Trust.

With the rise in call money to about 45 per cent, which

was the Lombard rate before yesterday's rise, a further small rise in the repo rate

would again make it the key money market indicator.

Continued on Page 12

UK Government plans tax for non-residents

By Richard Waters in London

BRITAIN's Inland Revenue is planning big changes to the tax rules for people who spend only part of each year in the UK.

The Revenue is proposing among other things that they should be taxed in Britain on a proportion of their worldwide income and capital gains.

The changes proposed for the first time in UK tax law are a variant of the unitary taxation system used by some US states to tax foreign corporations, something which has been heavily criticised by the UK Government.

The proposal is contained in a consultative document which has wide-ranging implications for people who spend less than half of their time in the UK each year.

People present for more than 30 but less than 183 days would be subject to a complex formula: the number of days

spent in the current year, plus a third of those in the previous year and a sixth in the year before that, would be added together to see if they passed the 183-day test. People who had been resident in the UK for several of the previous 14 years would be granted a concession.

Rather than being taxed on their worldwide earnings and gains, they would pay tax either on a proportion of these, or on income actually remitted to the UK.

Foremost among the proposals is that anyone present in the UK for more than 183 days in a year would be judged to be resident for tax purposes, and their place of abode would cease to be a factor.

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Continued on Page 12



US says 1989 budget deficit will be \$140bn

By Anthony Harris in Washington

THE US Government yesterday forecast that its budget deficit for 1989 would be just over \$140bn, without allowing for the cost of drought relief.

Although inflation assumptions remained within the range forecasted earlier, there was a slight upward revision.

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EUROPEAN NEWS

Timetable deal closer in Europe security talks

By Judy Dempsey in Vienna

WESTERN AND Warsaw Pact countries have failed again to decide whether to prolong the current round of talks on European security, due to break up today.

But there seemed to be a growing, if reluctant, consensus that they should work until August 5 and return around August 29.

There has been controversy over the duration of the current session of the Conference on Security and Co-operation in Europe (CSCE) since last week, when Bonn suggested that the talks continue at least for the duration of the forthcoming Moscow visit of Mr Hans-Dietrich Genscher, its Foreign Minister.

Yesterday, several delegations, including those of the US, Canada and the Netherlands, argued against too short

a recess because they would not have enough time to consult their governments.

The West Germans – and the French, who on Wednesday were saying there should be no break in the talks – yesterday softened their line and indicated they might accept the prevailing view that some recess was necessary.

Romania fell into line with its Warsaw Pact partners and expressed willingness to prolong the meeting by a week.

But there was disagreement among the 12 neutral and non-aligned states after Finland proposed that the talks continue without a break, until a final document was ready.

A CSCE agreement covering security, human rights and economic co-operation, has to be reached before fresh negotiations on conventional arms in Europe can get off the ground.

More East Germans move to the West

By Leslie Collett in Berlin

EAST GERMANY is expected to permit at least 20,000 citizens to "resettle" in West Germany this year, double the number last year, in an apparent attempt to quell rising economic and political dissatisfaction.

The West German Permanent Mission in East Berlin said yesterday that the authorities had issued 10,000 permanent exit papers in the first six months of 1988, compared with 11,459 in the whole of last year.

A record 40,000 East Germans were permitted to move to West Germany in 1984 but with the number dropped sharply in

the following years.

The largest number of applications to leave come from Dresden, Goerlitz and other cities near the Polish border which are out of range of West German television channels.

An official of the East German mission said estimates of the number of applications from East Germans seeking to leave ranged from 200,000 to as many as 1m, out of a population of 16.6m. The reason for the large "grey area," he said, was that no one knew how many applications had been withdrawn or invalidated.



**The Randfontein Estates
Gold Mining Company,
Witwatersrand, Limited**
(Randfontein)

(Registration No 07100257/00)

Barnato Exploration Limited

(BARNEX)

**Lindum Reefs Gold Mining
Company Limited**

(LINDUM)

(All companies incorporated in the Republic of South Africa)

Enrolment of members of Randfontein to the issue of shares in BARNEX and LINDUM, free of consideration.
The proposed rights offers of shares in BARNEX and LINDUM to members of Randfontein.

It was announced on 24 June 1988 that two companies were being formed, namely BARNEX and LINDUM, in order to:

- in the case of BARNEX, finance Randfontein's gold exploration interests and

- in the case of LINDUM, independently finance and exploit the underground gold reserves of the old Randfontein Section.

On 28 July 1988, rotation agreements were signed which contained certain modifications to the original announcement. These rotation agreements include, inter alia, the following provisions:

BARNEX
BARNEX will lend sufficient funds to Randfontein to enable the latter to incur expenditure in respect of its off-lease prospects and mineral rights acquisition commitments.

As a result of BARNEX providing loans to Randfontein to enable the latter to meet the funding of its off-lease prospectus commitments, BARNEX will be entitled to 80% of any benefits arising from Randfontein's participation in the venture.

The advances from BARNEX to Randfontein will be interest free and will be made available to Randfontein when Randfontein causes all exploration and current or future mining activities or when Randfontein is wound up and will be paid out of the proceeds, if any, of the sale of Randfontein's remaining exploration and current or future mining rights relating to the off-lease mineral participation rights.

LINDUM
Johannesburg Consolidated Investment Company, Limited ("JCI") has undertaken, on behalf of and as a subscriber to the issue of Randfontein shares, to subscribe to 1,000,000 ordinary shares in BARNEX and 6,113,553 LINDUM new ordinary shares of one cent each. These shares will be allotted and issued directly by BARNEX and LINDUM to members of Randfontein on the basis of 1 BARNEX and 1 LINDUM share for every Randfontein share held ("the entitlement ratio").

BARNEX will contribute an amount of R75.3m by way of a renounceable rights offer to the members of Randfontein of 18,340,659 shares ranking pari passu in every respect with the existing issued shares, at a subscription price of 410 cents per share.

LINDUM proposes to raise an amount of R50.8m by way of a renounceable rights offer to the members of Randfontein of 12,227,105 shares ranking pari passu in every respect with the existing issued shares, at a subscription price of 250 cents per share.

In terms of the Comprehensive Anti-Apartheid Act of 1986 passed by the United States Congress, members of Randfontein whose addresses appearing in the share registers of Randfontein are within the United States of America will not legally be able to accept any of the entitlement issue shares. These shares will be offered on either the JSE or the LSE and the proceeds accruing to individual shareholders will be remitted to the relevant exchange.

BARNEX and LINDUM shares will not be registered with the Securities and Exchange Commission, Washington D.C. or the Securities Commission of Ontario and accordingly the rights offers are not being made to persons with registered addresses in the United States of America or Canada. The rights which were to be made available to Randfontein have been offered to the executive members of staff as well as their benefit.

The above transactions will have no effect on the earnings and net asset value per Randfontein share.

The entitlement issue and rights offers are subject to The Johannesburg Stock Exchange ("JSE") granting listings of:

the entitlement issue of 6,113,553 ordinary shares (fully paid) in each of BARNEX and LINDUM; and

the renounceable (nil paid) letters of allocation in BARNEX and LINDUM arising from the rights offers and the ordinary shares (fully paid) issued pursuant thereto.

In addition, applications for listings have been submitted to the Council of The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited ("ISE").

Shareholders who are registered at the close of business on Friday 19 August 1988 will be entitled to receive the entitlement issue shares in BARNEX and LINDUM and to participate in the rights offers. Accordingly, the share registers of Randfontein will be closed from 20 August 1988 to 28 August 1988, both days inclusive.

The rights offer circular, which will include, for both BARNEX and LINDUM, the renounceable (nil paid) letters of allocation and pre-listing statements, is being finalised and will, subject to the rules, requirements and procedures of the JSE and LSE, be posted to members of Randfontein on 26 August 1988.

Johannesburg,
26th July 1988.

Italy sued over cheque surcharge

By David Buchan in Brussels

THE European Commission yesterday started legal proceedings against Italy for imposing an allegedly discriminatory tax on foreigners' bank cheques.

At issue is the government decision two years ago to levy £300 (sp) on foreign cheques and cheques written for more than £50,000. The Commission regards the latter portion of the tax as illegal discrimination by Italian banks towards citizens of other Com- munity countries.

The move comes at the behest of the Eurocheque organisation, whose 9,000 participating banks in 32 countries allow Eurocheque cardholders to cash cheques in local currencies across EC and other borders. Many of those suffering from the supplementary Italian tax are Eurocheque cardholders. The irony is that the Eurocheque system is itself under investigation by the Commission for extra charges levied by some member banks in the system.

Two years ago the Commission refused to renew the exemption given to Eurocheque from the general EC ban on restrictive agreements. The exemption has been granted on condition that banks issuing Eurocheques charge a uniform handling fee, with no extra charges imposed by banks cashing the cheques. But in 1986, Eurocheque raised the handling fee from 1.25 to 1.6 per cent of each cheque's value, and the Commission started receiving complaints that some banks were charging for cashing cheques as well.

The Brussels-based Eurocheque International organisation yesterday admitted several discrepancies in its system, but said it was doing its best to sort these out. Some banks did not make the 1.6 per cent fee very transparent to customers.

Mr Hubert Crouweels, secretary general of Eurocheque Belgium, said his country's banks are now refunding to their Eurocheque customers any extra they paid abroad, and then trying to reclaim this from foreign banks.

France to probe cement industry pricing practice

By George Graham

THE FRENCH Government has launched an investigation into the pricing practices of the country's cement industry.

Mr Pierre Beregovoy, the new Finance Minister, has asked the competition council to examine whether cement producers are operating an anti-competitive cartel aimed at fixing their market shares.

The investigation will focus on the practice of "parity rebates", a system of published price reductions designed to ensure that cement buyers in a given place will pay the same price, whichever cement producer they buy from.

"We wonder if this system is not at the root of the rigidity of market shares in the cement sector," said Mr Christian Babusiaux, director-general of competition and consumer affairs at the Finance Ministry.

French cement producers yesterday rejected the charge. They argue that since cement has a low unit price but high transport costs, the system of parity rebates prevents consumers from being forced to buy from the nearest supplier and thus improves the workings of the market.

The Socialists, in a new study, argue: "The right has

Europe's Conservatives left shivering as Socialists run off with their clothes

FRANCE'S CONSERVATIVES have been thrown into disarray by a series of electoral setbacks, which have both exacerbated and thrown into sharper relief their internal divisions. At one end of the spectrum, there are moderates who are willing in principle to co-operate with President François Mitterrand's Socialists; at the other there are the far-right nationalists of the National Front.

To some extent, the problems of the French right stem from the personal rivalry between ex-President Valéry Giscard d'Estaing and his two former Prime Ministers, Mr Jacques Chirac and Mr Raymond Barre. But the disarray also reflects a political dilemma common to the right-wing movement in several European countries.

When a Socialist Government is happily shedding its ideological baggage, modernising and deregulating the economy, and preparing for European integration, what ideological space is left for the conservatives?

The question poses itself with particular sharpness for parties whose roots are authoritarian and *dirigiste*; they are in danger of appearing "behind the times" while their Socialist rivals are perceived as "modern".

FT correspondents report from three countries where the task of adapting the economy to an independent Europe (and of improving previously difficult relations with Nato) has fallen on Socialist rather than conservative shoulders.



Mitsotakis: image problems.

Papandreou steals the thunder

By Andriana Ierodinakos in Athens

NEW DEMOCRACY, Greece's right-of-centre opposition party, lost power in 1981, shortly after pulling off one of the most astute political moves in the country's recent history: joining the European Community.

To make matters harder for the right, there is no love lost between the leaders of the various factions. Mr Raymond Barre, the ex-Prime Minister, was conspicuously absent from yesterday's gathering, preferring to remain at his Riviera villa. Mr François Léotard, head of the Republican Party, was also on holiday. Mr Chirac and Mr Giscard d'Estaing seem set to do battle for the overall leadership of the opposition.

The right has gained some consolation from the difficulties which Mr Mitterrand and Mr Michel Rocard, his Prime Minister, are experiencing with their "opening" to the centre.

This week's dismissal of Mr Jean Dromer, the Gaullist chairman of the UAP state insurance group, provoked delighted shrieks of protest from the opposition, who accuse the Socialists of launching a new political witch hunt.

This role-reversal has also occurred in most other areas, including the economy, where, after one term of socialist experimentation, Mr Papandreou embarked with fervour on the road to deregulation and the wooing of private enterprise.

The Socialists have also moved towards the conservative position by reconciling themselves to membership of Nato and relegating the deployment of US military bases as a domestic priority.

The task facing New Democracy ahead of the next general election (due by June 1989) is that of projecting a convincing pro-Western, pro-business image.

There are some signs that this message already carries some force with younger voters: the Conservatives now hold the lead in student elections, a striking change from the recent past. ND is currently ahead in the polls, with many voters undecided.

But he is criticised for not formulating policies and for long absences from political debate. His party remains very much a one-man band.

The search for someone of substance from the right to challenge Mr Gonzalez dips periodically into fantasy. A rather desperate attempt is being made to tempt Mr Mario Conde, a smooth 39-year-old MP and a party conference next January will test Mr Mancha's strength. Even if he wins re-election, the dissenters may split; but their problem is that they have nowhere obvious to go. The right is fragmented and neither the AP nor the CDS has had much success in the Basque country or Catalonia.

The AP, which has 68 seats in the lower house of the Cortes (the Socialists' 184 gives them an absolute majority in the 350-seat Congress), failed to get anywhere in the Catalan election in May. If Mr Gonzalez calls an election next year, and the AP's internal problems remain unresolved, it could be severely embarrassed.

Some political observers in Madrid believe the Prime Minister, who does not have to have another election until 1990, may call one in the second half of 1989 if Spain's first president of the European Community has been sufficiently glorious and if a series of low-level political scandals is cleared up.

Mr Suarez, who did well in the 1986 general election to raise his seats from 12 to 19 in the Cortes, is an enigmatic figure, and probably the most threatening of the Prime Minister's opponents.

But he is criticised for not formulating policies and for long absences from political debate. His party remains very much a one-man band.

The key to attracting swing voters will lie in devising a convincing programme for the modernisation and streamlining of Greek government and society, a process which by many indicators – bureaucracy, nepotism, health care and education – has hardly begun.

If Mr Mitsotakis fails to do this, he will almost certainly be supplanted by a younger guard of conservatives who are waiting in the wings.

Finland turns to West Germany

WEST GERMANY has become Finland's largest trading partner, passing the Soviet Union for the first time this decade, writes Olli Virtanen in Helsinki. Trade with the former reached FM1.37bn (£1.5bn) during the first six months; trade with the latter, FM1.25bn.

Finland's total imports in January-June grew by 7 per cent compared with the same period last year, outpacing exports, which increased by 5 per cent. The trade surplus for the first quarter, due not only to the trade gap but to slacker tourism revenue and emigrants' remittances.

The widening trade gap has begun to affect the current account on the balance of payments, which has been positive since 1985: a small deficit of \$26m showed on the balance for the first quarter, due not only to the trade gap but to slacker tourism revenue and emigrants' remittances.

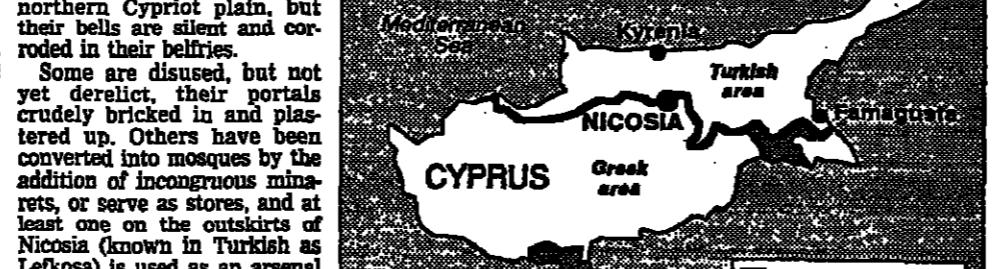
Finland assistance from Turkey helps the TRNC to get by, but Ankara has its own financial problems.

One thing does, however, seem probable for the foreseeable future, and has been rammed home repeatedly by Mr Denktas. There can be compensation, and moveable property can be transferred from one side of the island to the other. But Greek-Cypriots cannot return north, nor Turkish-Cypriots south – the division is too deeply entrenched. The church bells may never summon the faithful to prayer again.

FINANCIAL TIMES

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will be five years old under the leadership of Mr Rauf Denktas.

One after another, settlement plans have been drawn up by UN mediators, each a rejigged variant of its predecessor, but all have founded on the basic question of power-sharing by the Greeks and Turkish communities rather than territorial concessions.

According to international law, Mr George Vassilopoulos is president of all Cyprus, but Mr Denktas will not agree to anything less than a partnership of equals.

There is an air of weary rea-

tion about UN personnel and their reports emanating from Cyprus – even Mr Denktas, whose energy and stamina are indefatigable, said last month he was not optimistic about the outcome of a meeting with Mr Vassilopoulos, due to be held shortly under the UN's aegis in Geneva.

OVERSEAS NEWS

Thailand may get new premier as Prem resigns

By Peter Ungphakorn in Bangkok

MAJOR GENERAL Chatchai Choochavan's nomination to be Thailand's next prime minister was submitted to the president of the Senate yesterday, following Gen Prem Tinsulanonda's surprise decision to step down.

The real but unexpected possibility of Thailand having its first elected prime minister since 1976 represents significant progress for Thailand's democratic institutions.

But it will also present a severe test of unity for the various factions in the proposed five-party coalition, and could affect Thailand's progress towards joining the newly industrialising countries.

The army is pledged to support any legally appointed government but will watch developments closely.

Although the possibility of Gen Prem standing down had not been ruled out, it was never treated seriously until the moment it was announced on Wednesday night, four days after the general election.

The results remain unclear. When senior army officers visited Gen Prem on Wednesday morning, most assumed this was an expression of support. Then, in the evening, some stu-



Chatchai Choochavan

meeting with the military may have swayed him.

Yesterday, some of his harshest critics, including Mr Kukrit Pramoj, a former prime minister, paid tribute to what they described as a democratic gesture.

Maj Gen Chatchai, 66, a retired cavalry officer, heads the business-oriented Chat That party, which won 87 seats in Sunday's election. He is a former diplomat, foreign and industry minister, and has been a deputy prime minister under Gen Prem since 1986.

He is expected to reappoint Air Chief Marshal Sudhi Savasale, leader of the 34-seat Social Action Party, as foreign minister.

The other parties in the proposed 25-seat coalition are the Democrats, Ruan Thai, a nation-based grouping, and the United Democratic Party, which only has five seats.

Although most commentators welcomed the development, there were also concerns that some politicians, if given a free hand, could worsen Thailand's corruption problems. Most were willing to let the new government prove itself although there are doubts about how long it will last.

demands demonstrated briefly and peacefully outside his house to protest against another term for Gen Prem; because he did not stand for Parliament. The constitution drawn up under heavy military influence 10 years ago allows a non-elected prime minister.

The prospects remain unclear.

Jordan scraps West Bank plan

By Andrew Gowers, Middle East Editor, in London

JORDAN yesterday scrapped its much-vaunted development plan for the Israeli-occupied West Bank in what was officially described as a move to clarify its policy towards the Palestinians.

The official news agency Petra said the decision, taken at a cabinet meeting, coincided with a request from Mr Yasser Arafat, chairman of the Palestine Liberation Organisation, and was designed to end questions about Jordanian policy on the West Bank.

King Hussein is anxious to dispel suggestions that he has territorial ambitions across the River Jordan, and went out of his way at an Arab summit meeting in Algiers last month to deny that he has any desire to represent the people of the West Bank in any future Middle East peace negotiations.

However, the decision also

reflected the Jordanian Government's lack of progress in attracting finance for the plan originally costed at \$1.3bn, and coincided with speculation that Jordan is planning wider steps to dissociate itself from the occupied territories.

Reports from Amman suggest that no major leader could consider include the appointment of a new Prime Minister, the dissolution of Parliament, the downgrading of Jordan's Occupied Territories Ministry, and an end to the Government's payment of teachers' and civil servants' salaries in the West Bank.

The aim of such measures would be to signal that Amman wants to redefine its regional role in the light of the eight-month Palestinian uprising against Israeli rule in the occupied territories.

However, it is not yet clear

how far the King intends to go. One suggestion is that a recent spate of official leaks along these lines is intended to put pressure on Mr Arafat to mend fences with King Hussein. Other suggestion is that informed observers feel a recent spate of official leaks along these lines is intended to raise pressure on Mr Arafat to mend fences with King Hussein.

• Israeli officials yesterday said Jordan's cancellation was unlikely to have a major impact. AP adds from Amman.

Foreign Minister Shimon Peres, who has encouraged Jordan to form a joint negotiating delegation with moderate Palestinians, said he did not see any change in actual policy.

"What he [Hussein's] doing is not a change in policy but a purely technical move," Mr Peres said.

ANNIVERSARY OF SRI LANKA ACCORD

A heavy toll on both sides

By Kingshuk Bhattacharjee in New Delhi

THE twelve-month-long peace-keeping operation by the Indian army in Sri Lanka has been carried out at a heavy cost both in terms of money and casualties.

Apart from salaries and allowances the Government has spent more than rupees 1.64m since the agreement between Mr Rajiv Gandhi, India's Prime Minister, and Mr JR Jayewardene, Sri Lanka's President, to send the Indian Army to the embattled island was signed a year ago today.

So far, the number of soldiers killed is 580, 2,585 are wounded and 600 missing. Officials in New Delhi estimate

1,500 Tamil Tigers have been killed in around 1,500 and 3,000 wounded. They say about 300 Tiger activists are still fighting. There are now around 48,000 Indian troops in Sri Lanka.

According to senior officials in New Delhi, contacts are still being maintained with the Tiger leadership on a ceasefire and a surrender of arms by the militants. The negotiations are being held by Indian intelligence agencies and representatives of Mr V. Pirahakaran, the leader of the Tamil Tigers. Officials believe an agreement is possible soon.

An agreement was in sight

about a fortnight ago but did not materialise because of a hitch over the composition of a committee to be formed for the rehabilitation of the Tiger militants, a substantial amount for which is to be provided by India. No figure has been announced but some reports say this could be as much as Rs 4.5m.

Indian officials say there is no let-up in the operations against the Tigers despite the negotiations.

Disarming of the Tigers with or without military action and persuading them to return to the mainstream of normal life in Sri Lanka remains the objective, they say.

NZ announces austere budget

By Our Wellington Correspondent

NEW ZEALAND'S Finance Minister announced an austere privatisation programme yesterday in a budget which marked a continuation of the Government's tight monetarist and inflationary strategy.

The country's foreign exchange reserves are at an unusually-stagnant deficit at a time when a recessionary environment is seeing a large number of corporate failures.

Announcing his fourth budget, Mr Roger Douglas said sales of government assets were expected to raise at least NZ\$23m (\$31m) this financial year and NZ\$25m eventually.

The catalogue for privatisation includes the Bank of New Zealand; Postbank; New Zealand Post; substantial forestry assets, the property group Government Property Services, the Tourist Hotel Corporation, three international airports,

the shipping corporation and even the National Film Unit.

In the current year the assets sales are expected to help to produce a budget surplus of NZ\$2.2m or 3.6 per cent of GDP, compared with last year's surplus of NZ\$4.67m.

However Mr Douglas noted that under the financial deficit accounting system introduced last year there would be a deficit of about NZ\$1.85m or 2.2 per cent of GDP.

The bank earlier reported a provisional figure for growth in gross national product in the first half of 12 per cent, with a predicted yearly output of 10 per cent, compared with last year's 12 per cent.

The company will attain the 70th anniversary of its foundation on October 21, 1988, under your patronage. We deeply appreciate your continued favor and take this occasion to request your further support and cooperation in the future.

Business in General

In order to meet diversified coverage needs, the Company marketed several innovative types of insurance, such as Juvenile Comprehensive Insurance with Maturity Refund, whilst continuing its ongoing efforts to develop asset formation insurances of all types. Also, the Company continued to strive to offer improved customers services, including an effort to aid medium-sized enterprises in expanding their businesses overseas.

The Company also expanded its sales network and service system by establishing new branches, strengthening its agencies and improving its claim handling system. In addition, the Company strove to diversify its investment portfolio through the expansion of its investment companies overseas, which will also further strengthen its ability to invest its assets.

The Company also continued to expand its information systems in order to compete effectively in this age of advanced information and also continued to improve managerial efficiency.

In the overseas insurance business markets, unfavorable business conditions persisted in spite of the better conditions in some areas. The Company continued to pay attention to loss ratio factors and maintained its conservative underwriting policies.

As a result of the Company's efforts to improve its business principally by the means described above, the Company was able to achieve the business results given below which exceed those of the previous business

period.

Face-to-face on Angola's border

Anthony Robinson reports from Ruacana, where three armies meet

Two of the most powerful armies ever seen in southern Africa now face each other across the Cunene River which marks the boundary between South African-occupied Namibia (South West Africa) and Angola.

According to South African military intelligence, at least 12,000 Cuban troops, including more than 8,000 men from President Fidel Castro's mechanised 50th Division, are positioned along a 100km front between Ruacana and the Kavango river in the south of Angola's fifth military region.

The nearest Cuban forces are as close as 15km away from the South African Defence Force (SADF) and locally recruited South West Africa Territorial Force (SWATF) troops in their bases on the Namibian side of the regional issues, ended in Cairo.

The SADF believes the Cubans are supported by three Angolan army (Fapla) brigades of between 5,000 and 6,000 men and an estimated 1,000 guerrillas of the South West Africa People's Organisation (Swapo).

The Cuban reinforcements and their equipment started arriving at southern Angolan ports and airfields last October after the failure of a combined Angolan-Cuban advance on Mayanga, the stronghold of the heavily defended Oshakati airbase, less than 50km from the border, on low-level practice bombing raids.

A steady stream of military hardware – heavy transports, armoured troop carriers, light tanks and other supplies – flows in convoys up the main road from the south and along the railway to the railhead inside the main logistical base at Grootfontein.

The fighters took off from upgraded and tarred forward airfields constructed by the Cubans at Cunene and Xangongo, only a few minutes' flying time from the border.

The Cubans maintain that they were provoked into attacking South African forces at Mayanga the Vietnamese resistance group, the Khmer Rouge, the largest of the three anti-Vietnam resistance groups were agreed on a "wide range of issues".

Perhaps more remarkable than their bitter divisions was that the four factions met for the first time since Vietnam's invasion in 1978 without major breakdowns.

Indeed the Prince and Mr Hun Sen now seem broadly agreed on the need for a power-sharing body to take the country through to general elections following Vietnam's withdrawal.

Prince Shihanouk, in presenting his peace plan to the four factions this week, dropped his earlier demand that the PRK be dissolved as part of a settlement.

He said the four Kampuchean armed forces should remain intact.

The Peking-backed Khmer Rouge, which controls the largest guerrilla force fighting Vietnam's occupation of bases in Thailand, this week sat silently through most of the closed sessions, forced to endure repeated calls from both Vietnam and the PRK for the elimination of its 30,000-strong armed force.

It was the Khmer Rouge government of Mr Pol Pot which for three years ravaged Kampuchea, killing perhaps as many as 1.8 million people and prompting Vietnam's invasion.

"If one party obstructs a solution," said Mr Hun Sen yesterday, "we should not let this remain in the way of a political solution and prolong the agony of the Kampuchean people."

Vietnam's planned withdrawal of its 140,000 troops by December 1988, a year ahead of schedule, has served to highlight the Khmer Rouge issue and raised fears of a return to power of Mr Pol Pot.

Indian officials say there is no let-up in the operations against the Tigers despite the negotiations.

Disarming of the Tigers with or without military action and persuading them to return to the mainstream of normal life in Sri Lanka remains the objective, they say.

During the business year under review, personal consumption in Japan has grown at a steady pace. At the same time, housing investment showed large growth and capital expenditure was restored. On the whole, the Japanese economy expanded primarily because of increasing domestic demand.

Under these circumstances, the Company was able to achieve the results shown below by exerting its best efforts to expand the Company's business and to improve its managerial efficiency. We are, as ever, grateful for your kind support, without which these results could not have been achieved.

Looking to the present and the future, various difficult factors will influence the development of the Japanese economy including the restructuring of the economy caused by stimulating domestic demand whilst at the same time adversely affected by increased trade friction and the considerably stronger value of the yen. The business environment of the non-life insurance business is in the process of significant changes, which include the measures taken by the Japanese government to liberalize some of the restrictions on financial activities and internationalize these activities, the change of industrial structure and the approach of the so-called "aged society".

Under these conditions, the Company strives to further improve its business results. To this end, and being keenly aware of the many important changes in our business environment, the Company intends to further strengthen its corporate structure through continuous efforts to secure and develop its manpower, as well as through concerted efforts to elevate the level of managerial efficiency, to carry out research and development in respect of new lines of insurance and services which correspond to the increasingly diversified coverage needs of consumers, to improve its sales network and claim handling system, to strengthen its investment abilities and to expand the information systems which support these activities.

In addition, the Company will attain the 70th anniversary of its foundation on October 21, 1988, under your patronage. We deeply appreciate your continued favor and take this occasion to request your further support and cooperation in the future.

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BALANCE SHEET (as of 31st March, 1988)

Assets	(Dollars in thousands)	
	1988	1987
Investments.....	\$19,636,144	15,554,512
Cash and cash items.....	665,168	772,712
Net premiums receivable and agents' balances.....	562,800	389,592
Property and equipment, net of depreciation.....	809,344	747,304
Deferred policy acquisition costs.....	471,752	417,304
Other assets.....	657,464	665,488
Total.....	\$22,802,672	18,546,912

Liabilities and Stockholders' Equity	(Dollars in thousands)
Losses and claims.....	\$1,065,528
Unearned premiums.....	1,779,120
Investment deposits by policyholders.....	6,203,888
Accrued income taxes.....	5,457,720
Other liabilities.....	1,148,632
Stockholders' equity.....	7,148,184
Total.....	\$22,802,672
	18,546,912



TAISHO MARINE AND FIRE INSURANCE COMPANY, LIMITED
TOKYO, JAPAN

The annual report will be available at Hambros Bank and our London Liaison Office.

AMERICAN NEWS

Broker fired in US insider trading probe

By James Buchan in New York

WILLIAM DILLON, a junior broker at the giant Merrill Lynch securities firm, has been fired after an investigation into alleged trading in stocks to be tipped in *Business Week*, the big New York-based business and financial magazine.

The dismissal of Mr Dillon, 33, who was fired on Wednesday after two days of questioning by Merrill Lynch officials, is the first result of a widening investigation involving the magazine, the main US stock exchanges and the Securities and Exchange Commission.

According to the investigation, Mr Dillon, who joined the firm at its New London, Connecticut, office in 1986, was allegedly tipped off about the contents of *Business Week's* highly-regarded weekly investment column, *Inside Wall Street*. There has been speculation that he was tipped off by workers at a nearby printing plant which produces *Business Week* every Wednesday night.

It was not clear yesterday if other Merrill Lynch brokers were under suspicion. R. Donald Lee, the big Chicago printer that turns out *Business Week* at the Connecticut plant and a second in California, said it had looked into security and turned up nothing amiss.

Business Week, the flagship publication of the McGraw-Hill

group, launched its investigation when Mr Gene Marcial, the editor of the column, noted suspicious pre-publication trading in stocks he tipped in his column. The column retails rumours and speculation about takeovers and other price-sensitive corporate transactions.

In some stocks tipped by Mr Marcial, there was dramatic trading activity on the Thursday before the magazine's Friday publication. Grado, a paper sorting company praised in the issue that received newstands on July 15, rose 11.4 per cent on more than four times its normal volume that Thursday.

A report last Friday about the *Business Week* investigation set off the alarm at Merrill Lynch, said Mr William Clark of the firm. He said that its compliance officers, using a computerised system that records all trades by Merrill Lynch employees over 40 days, turned up some fishy Thursday trades in its New London office.

This is the second insider-trading case to touch a respected US business publication. In 1985, Mr Foster Williams, a Wall Street Journal reporter, was convicted for selling advance notice of stocks mentioned in the paper's *Heard on the Street* column.

Brazil opts for a costly brave new world

Ivo Dawnay reports on an impractical and almost unworkable draft constitution

THE fierce passions unleashed in the clash this week between Brazil's constitution-drafting legislature and President José Sarney now look set to subside. But the argument will not.

For just as Mr Sarney attempted in a nationwide broadcast to set the broadest context for a debate on the coherence and cost of Congress's 321-article draft, Mr Ulysses Guimarães, his veteran rival in the constitutional assembly, has deftly evaded it.

Instead of addressing the President's questions about the cost of the proposals, Mr Guimarães chose in an angry reply to deal only with the micro-case for the devolution of power from federal to state and municipal authorities.

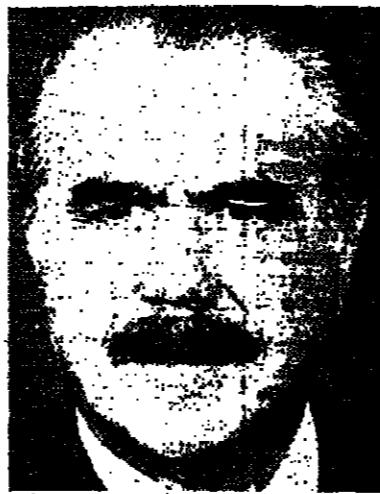
He was backed by a succession of fiery speeches from congressmen who chose to portray Mr Sarney's intervention as a last bid by the *ancien régime* to defend its vested interest against the relentless tide of democratic progress.

That is an injustice. The truth is that Mr Sarney, not before time, has confirmed what most intelligent Brazilian opinion has long feared - the draft constitution is a mess.

To back up his thesis, the President produced a formidable array of examples, not least the astonishing but credible claim that the document's provisions will cost \$12.6bn in additional expenditure - double Brazil's annual income tax revenues.

To the left, however, both the figures and the assertion that the draft will render the country "ungovernable" seems like exaggerated alarmism and yet another attempt at political brinkmanship.

Mr Sarney's much-publicised meeting last weekend with military ministers carried, opponents alleged, an implicit threat of intervention in the democratic



José Sarney: questions of cost



Ulysses Guimarães: angry reply

process. In much the same way last March, they claimed, he succeeded in frightening Congress into voting him a five-year term of office.

Furthermore, they say, his warning that the constitution will lead to higher taxes, unemployment, hyperinflation and the throttling of investment is merely a description of what has already happened under his leadership.

"Sarney is preparing his excuses," said one opposition party organiser this week. "In future, the economic disaster will be Congress's fault, not his."

All this carries a certain convincing resonance. But, equally, so does Mr Sarney's prediction of doom and despair. Unfortunately, the President looks fated to be ignored.

The briefest perusal of the draft - painstakingly drawn up over 18 months by Congress sitting as a Constitutional Assembly - suggests that it is both

impractical and almost unworkable.

It avoids tackling issues such as the division of power and checks and balances and instead paints a picture of Utopia, ignoring entirely how it is to be financed by Brazil's empty coffers.

Few issues are too small not to merit the drafters' attention. Generous pension and maternity rights, job security for public servants, limits on shift working, the vote at 16, curbs on foreign investment in a country crying out for capital, ceilings on interest charges and the abolition of the debts of various interest groups are just a few examples of this brave new Brazilian world.

Moreover, the document also, with a wave of a wand, cancels all decree laws - the main instrument of government during 21 years of military rule - that were not debated by Congress. This alone will do much to feed the confusion which is certain to emerge when

the drafting of enabling legislation begins.

So what happens next? Hopes among leaders of the right-wing Liberal Front Party (PFL) that the whole draft would be thrown out collapsed on Wednesday night when the document was approved as ready for final amendments.

These will now be taken. But changes are not expected, although some controversial elements will be removed through inter-party agreements. This is because approval of amendments requires a 2/3rd vote majority.

With politicians drifting away to municipal election campaigns, a quorum is already proving hard to establish. To deliver his cherished infant, Mr Guimarães, the veteran president of Congress, must hurry. A definitive version with many warts, is expected in early September.

In the meantime, the question absorbing political analysts is how much this matters. Brazilian constitutions have a short life - there have been eight since independence in 1822.

Furthermore, despite the solemnity with which this version is being constructed, the country's traditional pragmatism is likely to iron out or simply ignore many of the worst anomalies and impracticalities.

Perhaps the most disturbing revelation highlighted by the drafting process is how far removed the legislators appear to be from the acute practical problems facing Brazil. Hardly the least of these is how to create growth to finance ambitious social programmes.

President Sarney emphasised this in his broadcast on Monday. But then, as Mr Roberto Mammì of the São Paulo employers' federation pointed out, he should have voiced these worries in the months when he appeared concerned only with winning a five-year term.

Garcia calls for tighter laws on terrorism

By Barbara Durr in Lima

PRESIDENT Alan García yesterday proposed tough action against Peru's Maoist Sendero Luminoso guerrillas.

Speaking on the third anniversary of coming to office, he pleaded for national unity against terrorism and for economic co-operation.

He said that the eight-year war against the guerrillas had cost more than 15,000 lives. He proposed a toughening of anti-terrorism laws, making membership or association with subversive groups punishable.

Mr García said he wanted those "who place a bomb or distribute leaflets" to be as guilty as those who commit acts of terrorism. He asked that those found with arms or explosives be charged with terrorism and that investigation of terrorist crimes be in the hands of the police rather than the judiciary.

In addition, he called for setting up of special tribunals for terrorists.

Suggesting a political realignment to coincide with his new, tougher stance, he praised both the military and police for their fight against insurgency.

On the economy, Mr García said 1988 was going to be a difficult year. He pointed to inflation, predicted to soar to more than 400 per cent this year, and an acute dollar shortage as the principal problems. But he said increased export income this year from mining would help.

He admitted that his proposal to nationalise banks and financial institutions a year ago had contributed to the country's economic problems, but said he was unrepentant. He said the proposal "was and is necessary" to break the grip of three top economic groups.

Despite his obstinacy on bank nationalisation, the President asked the business community to join forces with the Government to revive the economy.

Mr García also announced a reform of the national social security system. He is to submit legislation to allow labour unions or individual workers to opt out of the state-owned Peruvian Institute of Social Security and seek private insurance.

Poll puts Dukakis 17 points ahead of Bush

MICHAEL DUKAKIS, the Democratic Presidential candidate, has extended his lead over George Bush, his Republican opponent, to 17 percentage points, Reuter reports from Washington.

According to a Wall Street Journal/NBC poll taken after the Democratic Convention and published yesterday, Mr Dukakis has a 51 to 34 per cent lead over Mr Bush.

Mr Dukakis has big leads among two important groups: a four-to-one lead over Mr Bush among Democrats who voted for President Reagan four years ago, and a 56-to-36 per cent lead among women.

In the Wall Street Journal/

NBC poll, 54 per cent approved of Mr Dukakis's choice of conservative Texas Senator Lloyd Bentsen as his running mate; 18 per cent disapproved.

Mr Bush, who will be nominated formally in New Orleans at the Republican convention on August 15-18, has embarked on the process of selecting his vice-presidential candidate. Yesterday, Conservative Republican Senator Gordon Humphrey of New Hampshire said he was founding a group to nominate conservatives among those mentioned as running mates include Senate Republican leader Robert Dole, former United Nations Ambassador Jeane Kirkpatrick, and Representative Jack Kemp.

Also in the speculation are Dole's wife Elizabeth, former transportation secretary; Kansas Senator Nancy Kassebaum; former Tennessee Governor Lamar Alexander; New Jersey Governor Thomas Kean; Illinois Governor James Thompson; and, despite his proclaimed lack of interest, California Governor George Deukmejian.

The Vice-President, despite his claims to be conservative,

is viewed suspiciously by members of the right who see him as part of the party's moderate Eastern establishment.

Prominent conservatives among those mentioned as running mates include Senate Republican leader Robert Dole, former United Nations Ambassador Jeane Kirkpatrick, and Representative Jack Kemp.

Also in the speculation are Dole's wife Elizabeth, former transportation secretary; Kansas Senator Nancy Kassebaum; former Tennessee Governor Lamar Alexander; New Jersey Governor Thomas Kean; Illinois Governor James Thompson; and, despite his proclaimed lack of interest, California Governor George Deukmejian.

Michael Dukakis: big lead among important groups

Argentina resumes loan talks

By Gary Mead in Buenos Aires

TWO senior Argentine government officials have arrived in Washington to resume discussions on the country's foreign debt interest payments which this year will be almost \$5bn.

Mr Mario Brodersohn, the Treasury Secretary, and Mr Luis Machinea, the central bank's chief, hope to reach agreement with the International Monetary Fund for a new standing loan of \$1.5bn, including \$400m outstanding from a previous loan.

According to the Argentine officials they would regard a new loan as sufficient to cover interest payments and fiscal deficit requirements up to the end of 1988, when President

Raul Alfonsin's administration leaves office. The two sides have already met twice this month and, according to Mr Machinea, are "very close" to an agreement.

However, 65 per cent of Argentina's \$55bn foreign debt is in the hands of 330 commercial banks. The Argentine delegation intends talking to them too, with the hope of obtaining by September \$5bn more.

While the IMF will be considering Argentina's failure to adhere to its year-old agreement to hold its fiscal deficit to 2 per cent of GDP for the second half of 1987 and cut inflation, commercial banks are

pondering Argentina's increasing tendency to fall into arrears on its interest payments. In June, Argentina came within six days of missing the 90-day deadline imposed by US banks for interest payments. After the deadline, US banks must place debt on a non-performing basis.

A similar deadline will arrive on August 6, when \$400m of interest in arrears from May ought to be paid.

Argentina's foreign currency reserves are officially described as "very low". The talks therefore have a degree of urgency, if bankers are to avoid another nervous day on August 6.

WORLD TRADE NEWS

Korea yard may haggle over other ship orders

By Kevin Brown, Transport Correspondent

THIS CONTRACT dispute between Hyundai and Worldwide Shipping raises the possibility that the South Korean shipyard may try to renegotiate some of the other 48 orders on its books.

Many of these were placed at almost the same time as the World-Wide order, when prices were near the bottom of a long decline caused by shipbuilding overcapacity.

The ships ordered by Worldwide are very large crude oil carriers, each of 254,000 tons deadweight. The first is due for delivery this month, the second in October, and the last in February.

Hyundai has a number of orders for similar ships, placed mostly by European and Far Eastern shipowners. However, there was no evidence yesterday that the yard was seeking to increase agreed prices.

Mr Suh said yesterday: "In 1986, the market was still weak, but we felt it was turning round. We had scrapped 18 VLCCs and, as a prelude to the new VLCC operator, we had to look at rejuvenation and replacement."

The group broke its close links with Japanese ship-builders and placed two major orders in Korea - the one now in dispute with Hyundai and a second, also for three oil tankers, with Daewoo.

Shipping analysts in Hong Kong recall that the two orders played an important part in restoring confidence to the battered shipping industry, given Worldwide's reputation for reliability.

Most shipping operators see Hyundai's move as a ploy to negotiate better terms now that world shipping markets are more buoyant.

Shipping analysts in Hong Kong suggest that Worldwide has no choice but to pursue legal action to resolve its dispute. They argue that this may be Hyundai's intention.

Settlement of the dispute would have to be sought in Korean courts, and the ship-builder would probably win concessions.

ECGD suffers a humiliating blow

Peter Montagnon on parliamentary criticism of a back-up body

BRITAIN'S Export Credits Guarantee Department was taking low yesterday in the wake of the controversial criticisms levelled at it by the House of Commons Public Accounts Committee (PAC), in keeping with parliamentary practice, it will be up to the Treasury to reply to the PAC report and that will happen only when Parliament reconvenes in the autumn.

Yet there is little doubt that the PAC has delivered a humiliating blow against an organisation that in recent months has been subject to increasing criticism in Parliament and from Whitehall for its growing recourse to borrowing from the public purse.

Largely as a result of a steep increase in the payment of claims against countries with debt difficulties, its borrowing has grown steadily - to £1.7bn at the end of the last financial year, compared with just £652m two years earlier.

The PAC report is larded with criticism - about ECGD's accounting policies, the level of its provisions against possible losses on sovereign debt, the adequacy of its arrangements to counter fraud and above all, about the level of borrowing from central government, now forecast to reach a peak of some £3.5bn by 1993.

Insofar as these borrowings are the result of claims paid and not yet recovered, they contain the seeds of a potential loss which could result in substantial cost to the taxpayer, the report suggests.

Expectations that the PAC would produce a critical report had been running high since March, when it subjected Mr Malcolm Stephens, the ECGD

social environments" that had raised labour costs by 50 per cent, had led to a 20 per cent rise in the international exchange value of the Korean currency, and had resulted in increases in materials prices.

Mr Hwang said that, because of these "uncontrollable changes", the building budgets for the vessels had been exhausted. He said work on the third of the VLCCs had ended, and offered to return to Worldwide its advance payment for the vessel.

Today, such vessels would cost about \$65m to build. However, because they are among the first VLCCs to be built in more than 10 years, there is no second-hand market by which to set a price for them. Even so, it appears clear that Hyundai faces losses under the terms of the existing contracts.

Shipping analysts in Hong Kong suggest that Worldwide has no choice but to pursue legal action to resolve its dispute. They argue that this may be Hyundai's intention.

Prices have begun to rise, however, following extensive scrapping of older tonnage, which has virtually eliminated overcapacity of about 100m tons in the world tanker fleet.

Even so, the putative charterer's economic order chapter, which

REXA has a long tradition of criticising ECGD, still believed it was a benevolent organisation whose officials were more concerned with damage limitation than with providing what the market wanted, but it was gradually improving.

The PAC confirmed in its report that ECGD was to modify both its accounting practices for calculating ECGD provisions.

Pest Marwick dismissed the ECGD's argument that it was not a bank and should not be obliged to use a formula devised for banks in calculating its provisions. There was "little to choose" between banks and export credit agencies when both were having to account for rescheduled debt.

But the Pest Marwick report came down in favour of using the Bank of England's matrix as the starting point for calculating ECGD's provisions.

PAC then said it was receiving "better" information from Mr Roy Withers, deputy chairman of Davy Corporation.

ECGD is not alone in facing financial difficulties as a result of the debt crisis. The latest survey by the Berne Union of export credit insurers showed a general trend towards shrinking businesses, higher claims and trading deficits, but according to Mr Ian Campbell, chairman of the British Exporters Association (BEA), ECGD provides better support to exporters than equivalent organisations in many other countries.

THERE ARE LIES, DAMNED LIES AND STATISTICS ABOUT PORTABLE COMPUTERS.



Computer advertisements often speak with forked tongue.

Manufacturers are prone to describe anything that weighs slightly less than a desk as "portable."

Or they forget to mention the battery pack that weighs an extra four pounds.

Or to give you processor power

they get rid of the batteries altogether.

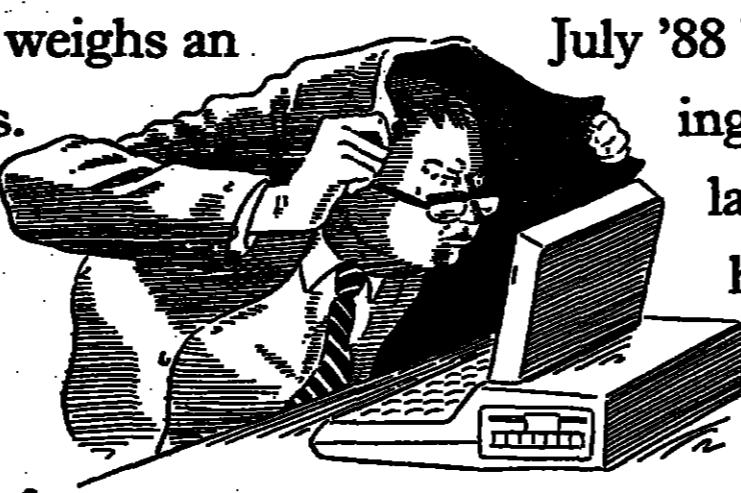
Thereby making the "portable" dependant on a power lead for the rest of its life.

Or they build screens that are only legible in a dark room.

And what these computers lack in specification their ads often make up for with overclaim.

But the Zenith TurbosPORT 386 and SupersPORT 286 machines were designed so that they could even use OS/2 on the move, miles from any power socket.

And all our machines, from the SupersPORT up



Some manufacturers make screens that need to be kept in the dark.

can plug in to your office network in seconds.

So while being more versatile than any other portables they remain as fast as the equivalent desktops.

You don't believe us?

July '88 What Micro? magazine summed up by saying: "...(The SupersPORT 286) must be the laptop micro that everybody would love to have: it's faster than most desktop micros, weighs from 14.5lb, runs on batteries and has the best LCD screen we have seen."

What more could

we say? Except, of course, phone us on 0800 444124 for further information.

In case you think it all sounds too good to be true.



Beware of the "portables" that need to be kept on a lead.



Some portables run in the slow lane.

ZENITH | data systems
THE QUALITY GOES IN BEFORE THE NAME GOES ON®

UK NEWS

Export credits body challenged over accounting

By Peter Montagnon, World Trade Editor

THE EXPORT Credits Guarantee Department (ECGD) - Britain's official export credit insurer - overstated its results by reporting a trading surplus of £175m in its latest accounts for 1982-83 and should increase its provisions against losses on sovereign debt, the House of Commons Public Accounts Committee said yesterday.

Its report, which pointedly ignores the efforts made by the ECGD to introduce more profitable underwriting procedures and increase business turnover, raises new doubts about the department's long-term financial viability.

The committee said that it was also concerned about the department's mounting borrowings from the Exchequer which could rise to as much as £2.5bn by 1983.

Exporters say that the ECGD, which has been struggling with an upsurge in claim payments as a result of the developing country debt crisis, has faced an increasing groundswell of criticism in Parliament and parts of Whitehall as its borrowings from central government rose to £1.7bn at the end of March.

"We are not entirely reassured by the department's statement that no losses will be involved because interest is charged on the balance outstanding... The trading account may be unable to stand the heavy interest charges that will fall upon it."

the committee warned. It said the ECGD should have applied Bank of England guidelines in establishing provisions against loss on its exposure to developing countries. This would have substantially increased the £240m available to provisions in its 1982-83 financial year.

The ECGD had received such advice from accountants Peat Marwick McLintock from whom it had itself commissioned a report after its latest accounts were qualified by the National Audit Office because of its provisioning policy, the committee said.

We do not accept that a reported surplus of £175m for 1982-83 can be regarded as a true and fair view of the results of ECGD's trading activities in that year. And we do not regard it as sufficient correction of the position for ECGD to qualify this reported surplus by seeking to explain in notes to the accounts how it had been calculated."

ECGD was in the process of introducing new accounting standards, it said.

The committee also said the ECGD, which is now paying out some £800m a year in claims, should examine the possibility of stepping up the resources applied to the prevention of fraud. The ECGD declined to comment on the PAC report to which the Government will reply in due course through the Treasury. Humiliating blow, Page 4

Cordless phone operators set for licence battle

By Hugo Dixon

A MAJOR battle for licences to operate the next generation of cordless telephones is likely after Lord Young, Secretary of State for Trade and Industry, said yesterday that the Government had decided to award two or three licences to enter the service.

The phones, sometimes called telephone phones, are expected to revolutionise telephony in the 1980s. The cost is expected to be about £150 compared with over £1,000 for cellular phones.

Cordless phones, however, are more restricted than the cellular variety. They can only make outgoing telephone calls and must be used close to base

stations, which will be set up in thousands of public places around the country.

Lord Young, who gave details of the scheme in a parliamentary written answer, made clear that British Telecom and Mercury Communications, the UK's two mainstream telephone operators, would not automatically receive licences.

The other telecommunications companies who are interested in the service are: Autophon, Ferranti, GEC, GEC Plessey Telecommunications, Libera, Mullard, Multitone, Orbital, Philips, Plessey, Shaye, Racal and STC.

Central funding of health must continue, says MPs committee

By Alan Pike, Social Affairs Correspondent

CONSERVATIVE-dominated House of Commons Social Services Committee yesterday rejected surgery on the idea for reforming the National Health Service under consideration by the Government.

In a unanimous report on the NHS's future, the all-party committee said that the strengths of the service "should not be cast aside in a short-term effort to remedy some of its weaknesses."

The committee examined possible reforms being considered by the health care review headed by Mrs Margaret Thatcher, the Prime Minister. "Given the absence of any

means of measuring their effect in practice, we have of necessity considered these solely on the basis of their own internal logic... On this basis, our investigations have shown that each contains major drawbacks," Mr Frank Field, its Labour chairman, said.

The British Medical Association, National Association of Health Authorities and health service unions all welcomed the committee's support for maintaining a centrally-funded NHS.

The report says central funding is bound to continue as the principal source of finance for health services. There are

strong arguments in favour of the present system, it says.

An extension of tax relief to all private health insurance contributions would reduce the total amount of public expenditure from which health service resources were drawn while narrowing the tax base.

To be politically feasible, says the report, any new system of funding or delivering health care would have to be broadly agreed between the major political parties.

The committee is lukewarm about US-style health maintenance organisations - another idea which has been considered by the Government.

English China Clays faces inquiry

By David Churchill and Clay Harris

THE OFFICE of Fair Trading is carrying out a preliminary investigation of English China Clays, the industrial minerals and construction group, to see if a monopoly inquiry needs to be undertaken by the Monopolies and Mergers Commission.

The OFT confirmed yesterday that it had written to the company and others in the china clay industry seeking certain financial and market

information. It stressed that this was a routine investigation to determine the facts of the market and did not mean that a monopoly inquiry would automatically be carried out.

English China Clays, which is one of the leading UK suppliers of aggregates, clays and road surfacing materials, acknowledged yesterday that it had received a letter from the OFT and was in the process of

responding. Separately, the company announced yesterday that Sir Alan Dalton, chairman since 1984, would retire in February, shortly after his 55th birthday.

Sir Alan is to be succeeded by Lord Chilver, vice-chairman of Cranfield Institute of Technology, who has been a non-executive director of ECC since 1978. Unlike his predecessor, Lord Chilver will not be an executive chairman.

The Government is also moving strongly in favour of allowing ITV companies to be taken over in the way that other publicly quoted companies can - subject to some

expand office space rapidly to cope with a flood of applications, at a time when its subscription income was still meagre.

The result was that Fimbra could keep afloat only with an overdraft from the Bank of England, plus assistance from life companies which not only funded a telephone helpline to answer queries from prospective Fimbra members but seconded staff to handle and process membership applications.

In theory, Fimbra's cash-flow problems should have eased since last summer. The 1982-83

annual report included a prediction that in 1983-84 the SRO would spend only £7.2m, well inside its projected fee income of £25m.

That, it now turns out, was far too sanguine a view. In the words yesterday of Ms Fiona Monroe, Fimbra's director of communications: "Although we have not yet got the final figure, it is absolutely clear that costs have been higher than budgeted."

One uncertainty which has consistently dogged Fimbra is that until very recently nobody had an accurate notion of how

many members it would end up with.

This was because nobody has ever had a reliable figure for the total number of independent investment intermediaries in the UK.

At various times in 1982 and 1983 Mr John Grant, who retired as Fimbra's chief executive last year, came up with figures as widely divergent as 5,000, 8,500 and 15,000 as forecasts of his eventual membership.

Some of the vagueness should have been cleared up by now, as Fimbra's likely mem-

ber of firms are simply not up to scratch - but that means subjecting them to costly investigation.

The Barlow Clowes affair has also taken its toll. The SRO has had to scrutinise the affairs of all the independent intermediaries which placed business with Mr Peter Clowes' insolvent gift fund management businesses.

The extent to which Fimbra's costs have swelled will not be known until the 1983-84 annual accounts are published shortly before its annual general meeting on October 18.

British industry triggers £8.5bn investment boom

Simon Holberton assesses the biggest spending programme by companies for 20 years

THE HEADLINES have been about British consumers' profligacy, surges in credit, rising interest rates, and the strong pound. But arguably something more important and long-term is happening in Britain: an investment boom is under way.

This year companies are planning to invest more than at any other time in the past 20 years, surpassing the last peak set in 1979. The best guess is that manufacturers will spend more than £8.5bn in 1983 prices, a measure which strips out the effects of inflation.

Economists agree that the surge in the amount spent on plant and machinery currently in train will provide the setting for further sustained rises in output.

For the Government's supporters in the City of London and Westminster it amounts to a continuation of the "supply-side miracle" and a vindication of the Government's economic policies. Critics might argue that it has taken a long time to get back the levels of investment recorded in the late 1970s.

In the short-term, however, economists give a warning that the rise in investment is exacerbating Britain's balance of payments deficit because much of the new machinery being purchased comes from abroad, notably West Germany.

Contrary to company tax law changes to company tax law in 1984 further clouded the investment outlook. They led first to an acceleration in investment, as companies brought forward plans to take advantage of investment allowances, and secondly to a slowing as the allowances were

improvement in the balance of payments.

However, a moderation in the rate of growth of investment may not mean that the current expansion of the economy is peaking. Many economists believe it is no longer meaningful to talk of a business cycle, although a surge in investment during the 1950s until the 1970s was often seen as a peak in that cycle.

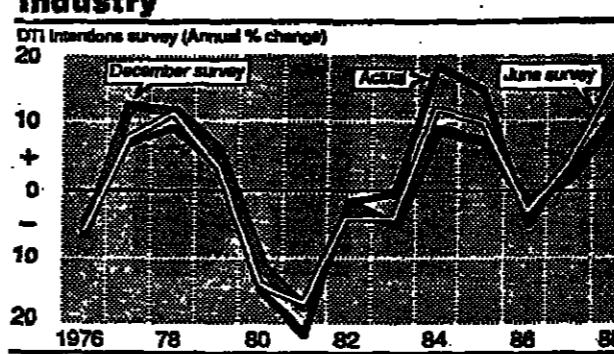
Mr Ian Harwood, UK economist at Warburg Securities says: "I don't take the view that we've got a cycle in the UK like we had. The expansion of the economy has been going on a lot longer than anyone had thought possible."

"At some point the economy has to slow down, but if we think it's to a level of 2½ per cent or 3 per cent then that does not mean a recession."

The early years of this decade were extremely difficult for manufacturing industry and investment. They followed a long, troubled period for the British economy and coincided with the blow dealt to the UK (and world economy) by the second oil shock, and by policies pursued by the Government which stressed a strong pound and tight money policy.

Changes to company tax law in 1984 further clouded the investment outlook. They led first to an acceleration in investment, as companies brought forward plans to take advantage of investment allowances, and secondly to a slowing as the allowances were

Investment in UK manufacturing industry



Source: DTI. Note: The graph plots the DTI's investment intentions survey against actual investment in manufacturing. The December survey is for the forthcoming year over the current year; the June survey is for the current year over the previous year.

used up.

Growth was given a kick-start by the depreciation of sterling after the oil price fell sharply in 1982. A period of sustained and rapid economic expansion ensued and continues today, fed by buoyant consumer demand.

In a textbook economy, investment lags a rise in demand and companies wait to see if the higher level of demand will be sustained. In the first instance a surge in demand tends to be taken up by a combination of higher employment and greater use of a company's existing plant and machinery.

Both these phenomena have been observed over the past year or so.

There have been large falls in recorded unemployment coupled with industry complaints over shortages of skilled labour.

There is also evidence of growing capacity constraints in industry. This week, the Confederation of British Industry's quarterly survey of trends in manufacturing indicated that industry was operating at its highest rate since the mid-1980s, although at a slower rate.

The DTI survey identifies chemicals and metals manufacturers among those companies expected to increase their investment strongly.

Capital goods and some consumer goods industries expect lower levels of investment "suggesting a

steady rate of replacement rather than expansion".

Industry is investing primarily to improve efficiency, the CBI survey suggests, but those companies citing expansion of capacity remained at its highest level since the CBI first asked the question in 1979.

Forecasting investment behaviour is, however, difficult. Investment is sensitive to business confidence as John Maynard Keynes said, "animal spirits". Quantitative optimism or pessimism in an economic model and then attempting to predict it is next to impossible.

The Department of Trade and Industry has, however, been accurate in forecasting future trends in investment through its half-yearly surveys of investment intentions. It said about 1,600 large companies, which represent a third of the wider quarterly capital expenditure survey population, have investment plans for the two years ahead.

The last survey was published in June and pointed to a rise in manufacturing investment, including leased assets, of 16 per cent this year. That compared with an initial forecast of 11 per cent derived by the DTI from its December survey.

Last month's survey indicated that manufacturing investment will rise further in 1983, although at a slower rate.

The DTI survey identifies chemicals and metals manufacturers among those companies expected to increase their investment strongly.

Capital goods and some consumer goods industries expect lower levels of investment "suggesting a

Saunders loses challenge on fraud office powers

By Raymond Hughes, Law Courts Correspondent

MR ERNEST SAUNDERS, the former chairman of Guinness, who faced a criminal charges in the Guinness affair, has failed in a High Court challenge of the powers of the Securities Fraud Office which is handling the prosecution.

Mr Saunders had complained about a notice sent by the SFO requiring Mr Sean Dowling, a Guinness director, to hand over affidavits and other documents.

They included evidence by Mr Saunders and former Guinness director Mr Tom Ward in the civil action in which Guinness is seeking to recover 55.2m paid by the company to Mr Ward.

Two of the charges Mr Saunders faces in the criminal proceedings relate to that payment.

Mr Saunders argued that because he had been compelled in the civil proceedings to disclose his defence to the criminal charges, the notice breached his constitutional right not to incriminate himself.

He asked the court to quash the notice on the grounds that the SFO's criminal powers under the 1987 Criminal Justice Act are to grant injunctions stopping it serving any similar notices.

Mr Justice McNeill said that the Act empowered the SFO to investigate "any suspected offence". Mr Saunders argued that once a person under investigation had been charged he was no longer the subject of a suspected offence. Therefore the SFO's power to investigate came to an end.

The SFO contended that sus-

picion continued until conviction or acquittal.

Mr Justice McNeill said that the police must stop investigating an offence once an offender has been charged. Charging a suspect did not bring an end to the investigation powers given by the Act.

The judge said the notice served on Mr Dowling had lapsed, although further notices might be issued by the SFO.

Also, he said, Guinness had given an undertaking in the civil proceedings not without the court's leave, to disclose any information or documents obtained from Mr Saunders. As long as that undertaking remained Guinness had a reasonable excuse not to comply with any SFO notice.

If Guinness were released from its undertaking, and further notices were issued by the SFO, there would be a point to be argued on the disclosure of documents.

The 1987 Act did not exclude access to self-incriminating material, at least in the possession of a third party. Indeed, it might be said that one of the purposes of the Act was to prevent disclosure of such material.

However, said Mr Justice McNeill, "It is clearly arguable that a person under investigation should not be compelled for purposes which might lead or have led to criminal proceedings against him, to disclose that which under civil process he has been obliged to disclose and which is or might be self-incriminatory."

DTI to probe share deals in engineering groups

By Andrew Hill

THE Department of Trade and Industry is to investigate deals in the shares of James Nell, the Sheffield-based tools manufacturer, just after Christmas and examine the company's share register.

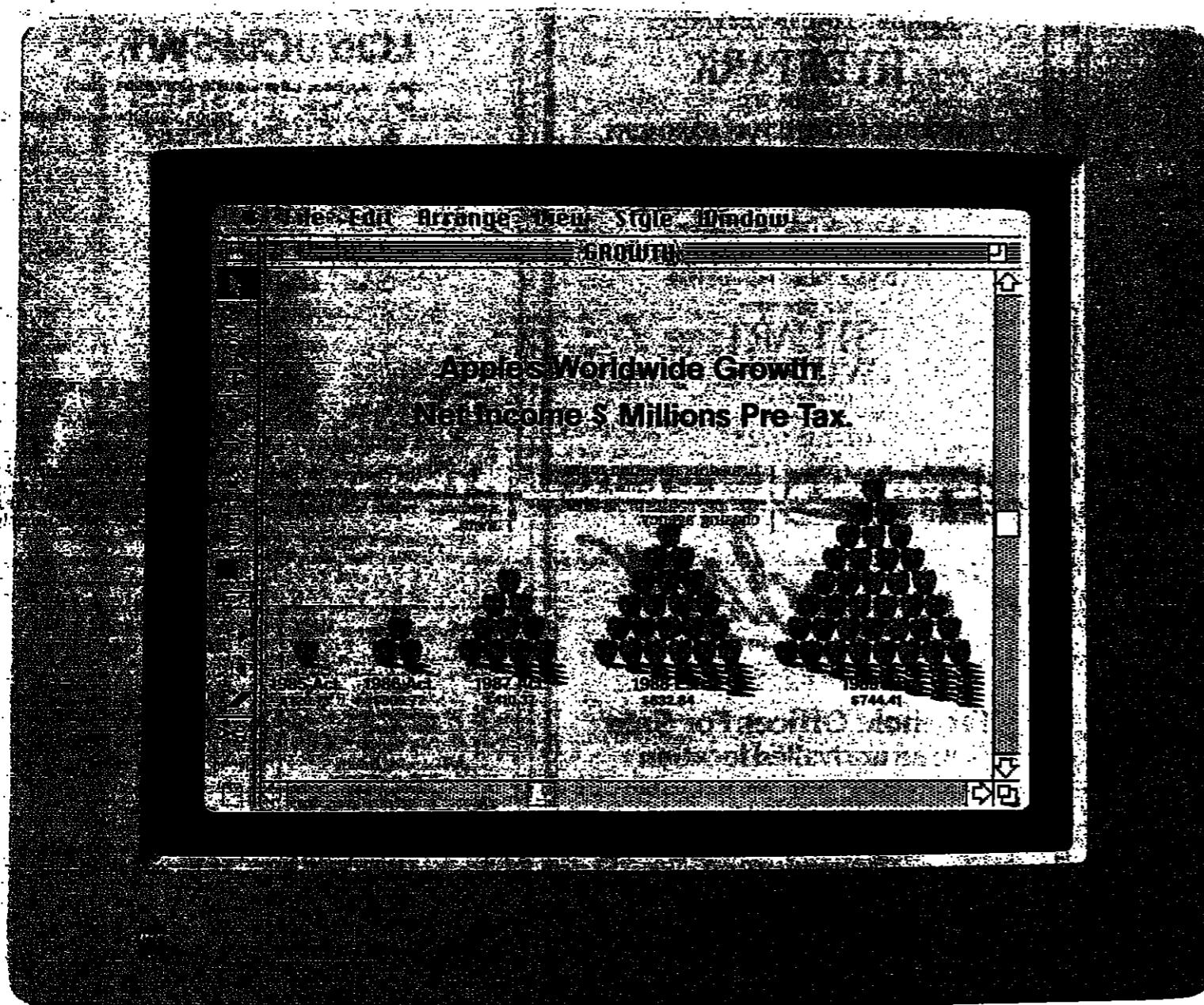
The DTI said it appointed two inspectors, Mr David Evans, a barrister, and Mr Brian Worth, of chartered accountants Clark Whitehill, a week ago.

In particular the inspectors will investigate the possibility that investors formed "concert parties" combining their shareholdings to influence or control the companies.

City's investor watchdog counts the cost of financial rescue

Yet another bumper crop.

In just eleven short years Apple Computer has grown to become one of the largest and financially strongest companies in



the world. Our turnover for 1987 was £1.44 billion.

We're also ranked 51 in the Fortune 500 list in terms of market capitalisation.

To put that into a British context, we'd be larger than Glaxo Holdings, RHM and W.H. Smith & Son (Holdings) in terms of sales. And we'd be the 29th most profitable company on a pre-tax basis, ahead of Sears, Courtaulds and Rothmans International.

A remarkable achievement in anybody's books.

Back in 1977, when we started, our sales totalled £418,400. Any doubting Thomas's over the following years

have had to eat their words. Even more so this year

Our latest results show our profits soaring in our second quarter by 135% with sales up 51% to £468.8 million.

An analyst was sufficiently moved to remark to the 'Wall Street Journal' that our performance was "sensational... the Macintosh™ just keeps gaining momentum."

While the 'Financial Times' was impressed enough to comment "Apple™... has begun to reap the rewards of its efforts to crack open the business personal computer market."

The 'Infomatics Daily Bulletin' said "Apple Computer continued its seemingly inexorable rise towards the top of the IT industry pecking order."

Another leading analyst predicted "Apple could sustain 25% growth for many years." Please excuse us for blushing.

To cope with all this present and future growth, we've established a major new European headquarters in Paris. We're also implementing dramatic expansion plans in the UK.

All perfectly natural behaviour for the largest dedicated manufacturer of personal computers in the world.

For full details dial 100 and ask for Freefone Apple. It could be the start of a very fruitful relationship.

 Apple. The power to succeed.

Initially at least, the explosive device in question usually presents itself rather more innocently.

As a letter, in fact.

Its contents, however, can still prove totally devastating.

Because the letter we're talking about is one which tells you a customer is either in receivership, in liquidation or in very serious trouble.

Last year, over 18,000 customers told their suppliers they couldn't pay their debts.

Sometimes the effect of this was so catastrophic it even destroyed the company receiving the letter.

(Thus creating a very unpleasant snowball effect.)

In some five thousand cases, however, the situation was easily defused.

LAST YEAR WE DEFUSED OVER FIVE THOUSAND OF THESE.

Because the company concerned had insured its debts with us at Trade Indemnity.

In these cases we were able to pay out up to 90% of the insured debt.

Leaving our client still very much in business.

Since over 40% of your current assets could be tied up in debts, isn't it time you also considered using our services?

These days, you'll find we're as flexible as your own business.

We can, for example, insure all your debts. Or just those you choose to cover.

We have access to credit information on over a million companies in the UK, and millions more overseas.

And our credit analysis service can give you detailed reports on specific companies.

Our collections service can recover debts quickly and efficiently.

And we can also help make exporting a safer and more profitable exercise with various services ranging from credit insurance to non-recourse finance.

To even the largest of companies, in fact, our services have become recognised as sensible, prudent precautions that any well managed company should consider.

For some companies, of course, they may prove rather more than just sensible.

They could prove life-saving.

TRADE INDEMNITY 

For further information on our services, please call 01-739 9939.

TECHNOLOGY

A profession's image maker

David Fishlock profiles the retiring director general of the Engineering Council

How can Miller start to chip away at the image of the bollermen engineers?

That question was asked by Christopher Lorenz in these columns in 1982, when Kenneth Miller had just taken up his appointment as the first director general of the Engineering Council, a body born of the Finsbury report on the lowly status of engineers and engineering in Britain.

This Cambridge graduate in mechanical sciences is now retiring from the job, newly rewarded with a CBE and confident that there have been some enduring changes. British engineers are on their way back to the sort of public acclaim enjoyed by pioneers of the railways, such as Brunel, and by aircraft engineers earlier this century.

The recipe advanced by Sir Monty Finniston, former chairman of British Steel, and his committee was bitterly debated by engineers before they agreed to some of its conclusions. Not least, they opposed the Government's approval of an Engineering Council with a Royal Charter to try to unify a profession which had become

highly fragmented and full of petty rivalry.

Six years on, the council is the uncontested custodian of a national register of nearly 300,000 professionals from the 48 engineering institutions that remain after several mergers.

It has persuaded them to accept the same standards of education, training and responsibility for the qualification of engineers and technicians.

But registration was merely the start, a vote of confidence from the "shop floor" to embark on the big challenge of raising their status.

To create cohesion in a profession of disparate specialisation but common levels of education and training, the council's board for engineering set out three categories of professional engineer: chartered, incorporated and engineering technician. Miller is sure that this has helped to raise the quality of the profession.

Looking outwards, what has the council done for the public image of the engineer? Collectively, it has taken the view that the "social antipathy" from which the engineer suffers in Britain runs deep in the culture and is less a cause of

national economic decline than a symptom of something more fundamental: an antipathy towards wealth creation and professional gain.

But Miller says the social climate has changed dramatically during the lifespan of the council.

One of the things it set out to do was to introduce schoolchildren to engineering. Today, Miller says, about 200 schools have an engineer on attachment, voluntarily giving guidance on careers, for example. It also encourages engineers to become school governors.

Miller cites salary increases as evidence of the improving status of engineers: rises have been ahead of inflation for the past two years. He estimates that a tenth of his chartered engineers now earn more than £30,000 a year; and 20 per cent are in general management, compared with 18 per cent in project engineering. "It's no longer a depressed profession."

Nevertheless, Miller is leaving some "unfinished business" in image enhancement for his successor, Denis Filer, formerly ICI's director of engineering, because 10 per cent of Britain's chartered engineers are still earning less than

£12,800 a year.

Bringing about the required transformation of public image was never going to be cheap work. As the Government's inevitable main source of funds, it had to be convinced that what the council was doing was in the national interest. "I think this is one of the major achievements of the council," Miller says.

The council was launched with a modest grant of £1m a year for three years. In 1985, the Government earmarked an extra £24m for higher education in engineering and technology. "There's no doubt about it, we played a key role," says Miller.

This token of Government faith in its work allowed Miller to tackle industry for subscriptions to replace the grants. The council recruited "industrial affiliates" — leading employers who recognised the value of engineers. Today it has about 180 and their contributions bring in an extra £500,000 a year.

As he sees it, financial support from the big employers sent a positive message about the council to individual engineers. As its status rose, it was

able to ask individuals for more than the meagre £2 registration fee. Fees now range from £3 to £7 and last year they brought in nearly £1.7m. Only chartered engineers pay the full fee, but they account for two thirds of the register. In addition, Miller has "a good little business" in examinations for engineers, which reaps another £250,000 a year.

For their registration fee, engineers have the right protected by the Royal Charter to use the appropriate title. Miller says that there are still about half a million engineers in Britain today who would qualify as an incorporated engineer or an engineering technician, but are not yet registered.

He leaves the council financially secure, with an income of nearly £3m this year. His initial team of 30 has almost doubled and he has built an organisation capable of responding quickly to issues — "within 35 minutes on one issue" — which is not a characteristic of institutions.

For three years he has enjoyed the support of Sir Francis Tombi, chairman of Rolls-Royce, as the council's chairman. Miller says they have been on the same wavelength on every matter of any importance.

* *Engineering: our future*
HMSO, 1982.

Embroidery goes on tape in-house

By Geoffrey Charlish

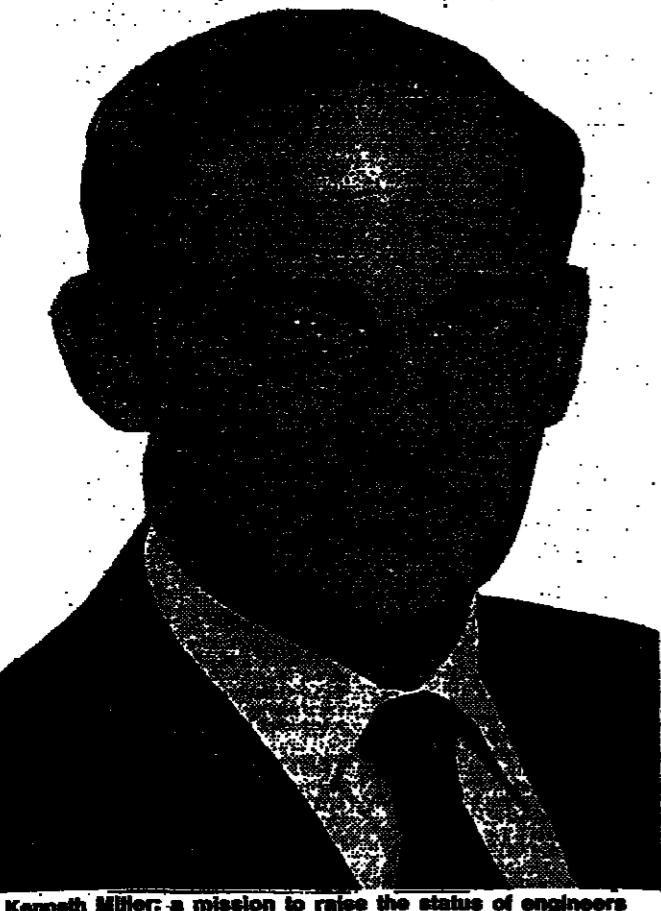
A SCREEN and keyboard system, which enables the punched paper tapes needed to operate embroidery machines to be made in-house, is being offered by Advanced Technology Industries (ATI), of Manchester in the UK.

Embroidery makers traditionally send the design to outside tape makers, but this causes a delay. The £21,750 ATI system allows designers to perfect their work on screen and then cut the tape ready for production.

Called Stitchbuilder, the machine utilises a "mouse" digitiser to transfer paper designs into a desk-top computer. The mouse is used to trace the design, its button being pressed at intervals to generate position co-ordinates. Modifications for size, colour and shape can be made on screen.

Designs can be printed on paper with a multi-pin plotter. When the designer is satisfied, the punched paper tape can be cut on an associated punching unit.

ATI can be contacted on 061 873 7899.



Kenneth Miller: a mission to raise the status of engineers

Academics claim a first for European network

Dublin.

EARN was founded in 1983 by universities in seven countries to further research collaboration between academics. Now there are more than 400 universities and colleges connected to the network in 26 countries. Students and academics using EARN can also exchange information with their opposite numbers on networks in the US (Bitnet), Canada (Netnorth) and Japan.

The main use of the computer network is for scientific research, although other disciplines are beginning to get more involved. Academics and students have access to files from any of the participating institutions. A group of Italian universities, centred on Pisa, is putting together a database which lists all the research projects.

Another important use of the network is to send information to other universities. As well as one-to-one messages, the network can also broadcast a message to a group of users. One such broadcast list con-

sists of all those who are interested in the Irish writer James Joyce.

Both EARN in Europe and Bitnet in the US grew up using standards devised by the American computer giant IBM because they started by linking universities with that company's equipment. They still use IBM computer links on the dedicated leased lines which connect the participating universities (bi-synchronous lines running the Remote Spooling Communications System protocol). The aim of EARN's project, which will cost about £2m (£1m (\$7m)), is to replace the IBM protocols on those links with open standards.

EARN relies on collaboration between the universities and industry. Until the end of 1987, IBM paid for some of the national communications links as well as all the international ones. Spending on those international links now amounts to about £2m a year.

In addition both IBM and Digital Equipment Corporation (DEC) have supplied much of the equipment

and expertise needed to get the network up and running.

The latest manufacturer to donate equipment is the Canadian telecommunications manufacturer Northern Telecom. It has given the organisers four data switches which will be sited in universities across Europe. Their main function will be to change the network over from the IBM standard to the internationally agreed transmission standard for packet switching (X.25).

They will also unload some of the communications processing from the universities' computer systems, so freeing the machines for other uses, and speed up the data transmission rate over the network. Most of the information is travelling at 9.6 kilobits per second (kbit/s). By the end of the year, Chester hopes the transmission speed will reach 64 kbit/s.

But because of the time it takes to produce international standards, Chester fears that the services available on the OSI network in December will be less sophisticated than those the universities are already using on the IBM network.

Although the electronic mail standard (X.400) has been defined, those for other services remain on the drawing board.

Della Bradshaw

Britain's universities, faced with mounting financial and administrative pressures, are planning a shake-up of their computing systems to improve their management services.

They plan to organise themselves into "families" to spread costs and share expertise — a novel approach to high tech developments for these independent institutions.

The new computing strategy for higher education is set out in a paper circulated this month to vice-chancellors and principals by Sir Peter Swinnerton-Dyer, chairman of the University Grants Committee (UGC), which distributes government funds to the universities.

Sir Peter cites two main reasons for the initiative:

- A growing need to support universities' decisions about resource allocation, research priorities, costing and financial management, as well as to respond to outside requests for information.
- A demand for the best possible systems to manage scarce resources, when individual institutions cannot afford the fundamental rebuilding of their systems which that entails.

Underlying the diplomatically phrased circular from the UGC is the feeling that universities' use of computers for management purposes is extremely patchy. Few have systems which can help them with the gamut of tasks facing them, from managing student accommodation and paying salaries to planning their future.

"The key problem facing most institutions is that, although their systems may be adequate at the operational level, they are less good at providing management information and of even less value for planning," says Sir Peter.

The family approach to revamping systems

To put this right, the UGC is proposing a three-stage initiative. First, by December it will draw up a blueprint setting out the data requirements of the university sector. It will aim to cover 80 to 80 per cent of the data needs of any institution, which the UGC believes are common across higher education, with the rest being peculiar to each one.

Second, each university will prepare a migration strategy by mid-

1989, designed to bring its existing systems into line with those implied by the blueprint. The UGC is offering to pay universities 80 per cent of the cost of drawing these up.

Third, the UGC will use the migration strategies to group universities into families with common problems. These families could be based on the size and type of university, computing development needs and commitment to particular hardware.

The UGC envisages four to five families, each comprising between 10 and 15 universities. Each family will oversee the implementation of the migration strategies, through adopting appropriate software. There will be no attempt to ensure that members of a family all use the same hardware, though Sir Peter argues that "families will have greater purchasing leverage for software and hardware."

Universities are free to choose whether or not to join a family, but the UGC is dangling a carrot in the form of implementation grants. It may fund one computer specialist per institution in the family.

A managing team, chaired by Professor Colin Campbell, of Nottingham, will meet next week.

David Thomas

APPOINTMENTS

Restructuring at Barclays

BARCLAYS is to re-organise the management structure of its European operations to provide a direct business focus for its commercial banking, separating corporate and retail management.

Mr Terry Jones, international trade director, becomes European director, corporate services.

Mr Tim Ward, a director of central retail services division, has been appointed European director, retail services.

In France, Barclays has appointed Mr Jacques Rambouillet as president of Davy Corp. He will take over as chief executive of Barclays Bank SA on the retirement of Mr Pierre de Lalande, who will continue as chairman of the supervisory board.

Mr Giles Davidson becomes area director, based in Frankfurt, for West Germany, Austria and Eastern Europe.

He will be joined by Mr Peter Stappert, who replaces Mr Peter Graham as general manager, Germany. Mr Graham is returning to head office, London.

Barclays Bank is forming a retail investment management company to co-ordinate Barclayshare, BZW Portfolio Management (BZPML) and the bank's trust company investment arm. To be called Barclays Retail Investment Management (BRIM), it will be 15 per cent owned by BZW, with the remainder owned by Barclays Bank. It will be grouped in the financial services division of the bank, with Barclays Financial Services (BFS). Mr Mike Pitcher, vice-chairman and managing director of BFS, also becomes chairman of the new company. Mr Richard King, until recently president and chief executive of Barclays Bank of California, has been appointed managing director of BRIM. He also becomes a non-executive director of BFS, chairman of Barclaysshare and chairman of BZPML.

Lord Chilver, who has been appointed chairman-elect of ENGLISH CHINA CLAYS, has offices at the next annual meeting in February when Sir Alan Dalton intends to retire.

deputy chairman. He is chairman of Sun Life Assurance Society and until June 30 was deputy chairman of Lazard Brothers.

Mr David A. Meredith has been appointed executive director marketing of CHELTON ELECTROSTATICS.

GRAMPIAN TELEVISION has appointed Mr Graham Good as director of finance. He was company secretary.

FINE TUBES, Plymouth, has appointed Mr Russ Daudjee as managing director. His responsibilities have included finance, administration and production. Mr Tom Barley has retired as managing director but remains a non-executive director. Fine Tubes is a

British subsidiary of the CAWSL Corp, Pennsylvania.

*

GT MANAGEMENT has appointed Mr David Fitzwilliam-Lay as group chief executive.

Mr Mark V. St Giles has resigned but will remain a consultant.

*

AWD, Bedford, manufacturer of commercial vehicles, has appointed Sir John Buckley as a non-executive director. He was chairman and chief executive officer of international operations at Frank B. Hall.

*

VG ELEMENTAL, a division of VG Isotopes, has appointed Mr Neil Sanderson as managing director. Mr Tony Kinsella becomes sales director.

*

LEP GROUP has appointed Mr Peter Gram as non-executive

*

Mr John Sheehan has been appointed sales and marketing director of DECLAN KELLY HOMES. He was group sales manager of Charles Church. Mr John Crafts has been appointed production director Guildway, another Declan Kelly company. He was director and general manager of Andrew Murray Joinery.

*

AUSTIN ROVER FINANCE has appointed Mr Denis Spooner as sales and marketing director. He was north east area director of Lombard North Central, another National Westminster Bank Group subsidiary.

*

Mr Richard Holway has joined the board of TIS. He is corporate marketing director of Apple Computer (UK).

*

HOME & LAW PUBLISHING has appointed Mr Tony Credock as new business director. He was business development manager.

*

Mr Terry Harrison, executive chairman of Northern Engineering Industries, has joined the board of NORTHEUMERIAN WATER.

*

Mr John Sawyer has been made managing director of COBURN OPTICAL INDUSTRIES (UK), Andover, part of Pilkington Visioncare.

*

Mr Andrew Evers has been appointed commercial director of WATERLOW PETTY BUSINESS FORMS, Leeds, a BPPC subsidiary. He was commercial manager.

*

GRANVILLE SPONSORED SECURITIES

High	Low	Company	Price	Change	Dr (%)	%	PE
230	185	Am. Brit. Ind. Ordinary	230	0	8.7	3.8	8.6
230	185	Am. Brit. Ind. CULS	230	0	10.0	4.3	
45	40	Armitage & Brooks	36	0	—	—	
57	40	BBS Design group (USM)	40	-1	2.1	5.1	6.4
162	152	Barclay Group	162	-1	3.5	2.9	23.2
125	100	Barclay Group One, Pref.	112	0	6.7	5.7	10.2
102	90	Bar					

ARTS

Arts Week

F S Su M Tu W Th
28/30 31 1 2 3 4

MUSIC

London

BBC Symphony Orchestra, conducted by Lorin Zilman, with Ann Murray and Elizabeth Lawrence, mezzo-sopranos. Schenker, Debussy, Michael Finnissy and Scriabin. Royal Albert Hall (Tues). Tickets £12-£15. Tel: 01-580 2200.

Paris

London Handel Choir and Orchestra, conducted by Denis Darlow, with soloists including Gillian Fisher, Alison Hodge, Nigel Kenworthy and Michael Gove. Haydn's L'Allegro, il Penseroso ed il Moderato. Royal Albert Hall (Thurs).

New York

Mostly Mozart Festival. Emerson String Quartet, plus Heinz Hollinger (oboe), Lilian Kalir (piano), playing Beethoven, Brahms, Dvorak, etc. (Mon). Mostly Mozart Festival Orchestra, with Gerard Schwarz conducting. Jean-Pierre Rampal (flute) and Stephen Hough (piano). Prokofiev, Mozart, Dvorak, etc. (Wed). Michael Tilson Thomas, Royal Philharmonic Orchestra, performing at the Royal Festival Hall (Thurs). Tel: 01-580 2204.

Chicago

The National Youth Orchestra of Great Britain, conducted by Christopher Seaman. Dukas, Elgar, Stravinsky, Concerto for Piano and Orchestra. The Gabriel Conforti under Paul McCreesh, with a programme of Turner, Humphrey, Blow, Purcell (Mon). Christ Church Cathedral Choir, with Stephen Darlington, with Simon Lakowicz (organ). Purcell (Thurs). Concertgebouw, Nuitres Kerk (Dam Square).

Tokyo

Hiroko Nakamura (piano), NHK Symphony Orchestra, conducted by Yuzo Kuniyoshi. Beethoven, NHK Hall, Shimbashi (Mon). Christ Church Cathedral Choir, with Stephen Darlington, with Simon Lakowicz (organ). Purcell (Thurs). Concertgebouw, Nuitres Kerk (Dam Square).

New York

Mostly Mozart Festival. Emerson String Quartet, plus Heinz Hollinger (oboe), Lilian Kalir (piano), playing Beethoven, Brahms, Dvorak, etc. (Mon). Mostly Mozart Festival Orchestra, with Gerard Schwarz conducting. Jean-Pierre Rampal (flute) and Stephen Hough (piano). Prokofiev, Mozart, Dvorak, etc. (Wed). Michael Tilson Thomas, Royal Philharmonic Orchestra, performing at the Royal Festival Hall (Thurs). Tel: 01-580 2204.

London

Two Chees By Half (Old Vic). A farcical Copegan production by Richard Jones of Ostrovsky's Diary of a Scoundrel in an old Rodney Ackland setting, with a satirical version of his death by Richard Huston and a brilliant central performance by newcomer Alex Jennings. Until August 12. Tel: 01-580 2206. Credit card books £12.50.

Two Gentlemen of Verona (RSC). A Copegan production by Richard Jones, with a satirical version of his death by Richard Huston and a brilliant central performance by newcomer Alex Jennings. Until August 12. Tel: 01-580 2206. Credit card books £12.50.

The Changeling (Lyttleton). National Theatre directorial debut by Edward Hall, in a classicistic production of Middleton and Rowley to a Goya-esque 19th century Spanish slave colony. Miranda Richardson stars as the bluest of blues. Tel: 01-580 2206. Credit card books £12.50.

The Winter's Tale and The Tempest (Cottesloe). Peter Hall's National Theatre farewell productions return to the Cottesloe for July before moving to the Old Vic. Tel: 01-580 2206.

Two Gentlemen of Verona (Old Vic). August. Michael Bryant's lecherous Prospero. Geraldine James's adventures Imogen and Tony Haygarth's sweaty Ophelia are the pick of some uneven performances. Tel: 01-580 2206. Credit card books £12.50.

The Commons Pursuit (Phoenix). Second London chance for Gavron Simon Gray comedy about Cambridge graduates' love and sex. Tel: 01-580 2206. Includes James Wilby and Patrick Barlow. Tel: 01-580 2206. Credit cards £12.50.

Two Gentlemen of Verona (Cottesloe). Transfer of King's Head revival of early Noel Coward, same period but lesser vintage than Hay Fever, but worth seeing. James Saunders' Next Time I'll Sing to Hermit Alexander James Mason (not Steve). Tel: 01-580 2206.

St. Paul's (Prince of Wales). Average, traditional revival of the great Rodgers and Hammerstein musical, with Gemma Craven failing to wash the baritonal Emile Belcourt out of her voice. Tel: 01-580 2206.

The Phantom of the Opera (Her Majesty's). Spectacular, emotionally nourishing new musical by Andrew Lloyd Webber, with a new, underhanded but old burlesque reunion in a doomed theatre. Tel: 01-580 2206.

Hippodrome (Adelwyd). New Tom Stoppard's latest espionage, romance and black comedy. Tel: 01-580 2206.

Julliard Concerts. Nostalgia: American Trombone Quartet performing

music of the 1940s. Free concert at IBM Atrium, 16th & Madison (Wed 12.30 mat).

Washington

Wolf Trap Festival. Popular Music Concerts this week include The Temptations and The Ospreys (Tues); The Moody Blues (Wed); Jean-Luc Ponty and The Yellow Jackets (Thurs). Tel: 01-580 2206.

Chicago

Revival Festival. Chicago Chamber Musicians, with an all Beethoven programme (Tues). Chicago Symphony, conducted by David Zinman, with Cho-Liang Lin violinist Brahms (Thurs). Tel: 01-580 2206.

Tokyo

Hiroko Nakamura (piano), NHK Symphony Orchestra, conducted by Yuzo Kuniyoshi. Beethoven, NHK Hall, Shimbashi (Mon). Christ Church Cathedral Choir, with Stephen Darlington, with Simon Lakowicz (organ). Purcell (Thurs). Concertgebouw, Nuitres Kerk (Dam Square).

EXHIBITIONS

London

The Royal Academy, Cézanne - The Early Years 1885-72. A concentrated and illuminating study of the formative period of one of the greatest artists of the 20th century. The exhibition includes the seminal figures of the modern movement. Although he came to greatness in middle and later years, his early period, far from being simple, is now revealed in all its complexity and contradictory quality. Ends August 21.

Paris

Cézanne et Montmartre, sold in impressionist and post-impressionist paintings and sculptures, including the Louvre, Musée d'Orsay and Versailles Palace.

Paris

Carle Vernet et Monuments, sold in impressionist and post-impressionist paintings and sculptures, including the Louvre, Musée d'Orsay and Versailles Palace.

The Royal Academy Summer Exhibition. The 22nd Summer Exhibition in an unbroken sequence, and still the largest open exhibition of current painting, sculpture, prints and drawings in the UK. Works exhibited this year are a little smaller than usual, but as dense and bizarre as ever with many good things to be discovered, a gratifyingly large number of which are by young artists.

The Haymarket Galleries (two exhibitions).

Anary Penczak is a fascinating study of a group of young painters active in Melbourne during and just after the Second World War.

Richard and Alice Penczak are also shown in impressive depth. Cho-Liang Lin violinist Brahms (Thurs). Tel: 01-580 2206.

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ARTS

The Tempest

ROYAL SHAKESPEARE THEATRE, STRATFORD-UPON-AVON

Absent for too long from the British stage, John Wood made a triumphant return on Wednesday in the main house at Stratford-upon-Avon as a spell-binding Prospero in Nicholas Hytner's superb revival for the Royal Shakespeare Company.

Confession time. I had to leave my heart into my mouth to comment on Peter Hall's recent National revival. Michael Bryant gave us a nut-brown swarthy mariner with a few grudges to sort out while operating off a short fuse and surrounded by stage effects borrowed from tatty re-runs of Renaissance

Wood's Prospero, the best I have seen, is a demented stage manager on a theatrical island suspended between smouldering rage at his usurpation and unbridled glee at his alternative ethereal power.

His condition is translucent, where Bryant's was doggedly earthbound. Most of the characters in this play are the placed creatures but only Wood's Prospero expands into the void. The others are trapped, swivelling figures in a mist that stifles aspiration and low ambition. The cerulean haze of David Fielding's cyclopean design is a theatrical metaphor in itself. The storm disengages the Neapolitan court into Prospero's cell, down a trap.

Wood stands stock still by his staff on a tilted white disc. No qualms about playing up

and down the vocal register, so for the dark backward and abyss of time we plummet several throaty fathoms deep. The dangerous scene with Miranda (Melanie Thaw) is a more a re-run of his agony, a condensation of long-endured grief than tiresome exposition.

What I have never experienced with Prospero before is an exact alignment of his incontinent temperamentalism with that of a born party-thrower. He loves to spring surprises on people, and Hytner responds with a series of stunning second half tableau.

The scalloped surround reveals blue-masked mimes bearing reversible plastic sea-food displays for the banquet; the "thought is free" catch is given a wonderful descent by Trinculo and spirited off in a whistle by Duncan Bell's admirably antifey but gorgeous Ariel (much better than the N.Y.'s – he can sing elegantly); the Juno masque is a rainbow-faced Stefano from Campbell Morrison and a subdued, blotchy and uniquely subservient Caliban from John Kani.

The whole play is released from RSC rigmarole and reinvented in a new style from elsewhere, from the ENO, the ICA, the Royal Exchange and Dame Ursula. But, finally, it does exactly this, binding the entire play in his own wrecked view of it, but also with W.H. Auden's barbed Modernist retort in *The Sea and the Mirror*.

Tippett's Mangu is the healing accomodator of all contemporary social ills. He takes problems on while relating them to his own. John Wood does exactly this, binding the entire play in his own wrecked view of experience. Hytner is a generous, inclusive director, so we also enjoy a definitive clown Trinculo from Desmond Barrit in pink and green, a matching sodden Stephano from Campbell Morrison and a subdued, blotchy and uniquely subservient Caliban from John Kani.

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FINANCIAL TIMES

BRACKEN HOUSE, CANNON STREET, LONDON EC4 P4BY
Telegrams: Finantime, London PS4. Telex: 8854871
Telephone: 01-248 8000

Friday July 29 1988

A test for Mr Clarke

IT IS FORTUNATE that Mr Kenneth Clarke, Britain's new Health Secretary, is a good communicator. He faces the daunting task of convincing Mrs Thatcher and the Conservative Party that the approach to health care pioneered by Aneurin Bevan and the Labour Party in 1948 is broadly valid in the 1980s. The British public, of course, needs no such convincing; despite the strains induced by underfunding, polls indicate remarkable support for the NHS.

The "wide-ranging" review of the NHS launched earlier this year by Mrs Thatcher has been a source of wry amusement among health care professionals. They knew all along that, once civil servants started to analyse the reform proposals of the thinktanks and to make international comparisons, the strengths of the present approach would become increasingly apparent. The NHS, while far from perfect, offers a more comprehensive and equitable service than is found in virtually any other country. Yet it is also extraordinarily cost-efficient: much less is spent on health care than in most other countries, yet the improvement in life expectancy and other measures of general health have been as impressive.

An open door

These and other virtues have persuaded the bipartisan House of Commons Social Services Committee, which reported yesterday, to urge the Government not to cast aside the NHS's many strengths in short-term effort to remedy some of its weaknesses. Given Mr Clarke's known scepticism about some of the more outlandish reform proposals, the committee may find itself pushing on an open door.

A key test will be the view he takes of tax relief for private health insurance for the elderly. Advocates see this initially inexpensive subsidy as the thin end of a long wedge which could eventually lead to universal tax relief for health care. The Commons committee rightly opposes any extension of tax relief and points to the difficulties raised by fiscal subsidies elsewhere. It points out that the private health sector hardly needs a subsidy, having doubled in size since 1979. The

elderly would benefit far more from an improvement in NHS funding than from tax relief for services that have little relevance for them.

The committee makes short work of other proposed radical reforms. It says measures to allow the young and healthy to "opt out" of the NHS would be both expensive and impractical. It believes that the introduction of US-style Health Maintenance Organisations would cause immense organisational difficulties, serve the poor badly and not bring about the cost savings achieved in the US - because the NHS is already so much more efficient than American private medicine. The MPs are also careful not to endorse unthinkingly the fashionable concept of internal markets: the potential benefits from competition between districts, they argue, could be offset by high administration costs and adverse effects on the less mobile and those on low incomes.

Prosaic matters

The message for Mr Clarke is to eschew quick fixes and grand organisational redesigns (of which the NHS has seen plenty) and concentrate on more prosaic matters, such as improving the effectiveness of management, the flexibility of working practices, the quality of the information available for decision-takers, and the range of non-medical amenities offered to patients. The scope for action in each of these areas is immense.

There is no reason why those prepared to pay should not benefit from "extras" such as more privacy and better food. Much could be done to instil a less bureaucratic and more customer-oriented ethos. The paucity of information is alarming. Some 490 "performance indicators" have been introduced, yet nobody has much idea of the relative costs of different treatments or of their success rates. Consultants, with inflexible lifetime contracts, remain beyond the jurisdiction of district managers. There is little management training and nothing that remotely resembles an NHS corporate plan or statement of objectives. The time to think about wider reforms will be when these deficiencies have been remedied.

Peace moves in Kampuchea

THE JAKARTA "cocktail party" talks to find a political solution to the Kampuchean crisis ended in disagreement and without a communiqué yesterday. That is not to say they were a failure. It is remarkable that the first talks in a decade between the warring factions did not break down; nobody walked out. The talks are a vital precedent: a new round should be called as soon as there is a chance of progress.

The problems are formidable: how to end the nine-year-old Soviet-backed Vietnamese occupation of Kampuchea; how to prevent the ruthless Khmer Rouge regime of Pol Pot from regaining power; how to secure a new government without a renewed outbreak of civil war and terror which might give the Vietnamese an excuse to return.

Yet the forces pushing towards a settlement are stronger than at any time since Pol Pot toppled the embattled Lon Nol administration in 1975 and instituted a reign of persistent terror which was terminated by the Vietnamese invasion on Christmas Day 1978.

Regional conflicts

Mr Mikhail Gorbachev, the Soviet leader, has made clear that the Vietnamese occupation of Kampuchea is high on the list of regional conflicts which he wants ended quickly as part of his policy of improving relations with both the US and China; the Vietnamese, who receive around \$2bn a year in Soviet support for the occupation, have been told by Moscow to speed up the withdrawal and get all 140,000 troops out by the end of next year. China, on the other side, has made clear recently that its support for the Khmer Rouge is not unconditional. Senior Chinese officials have indicated privately that the Khmer Rouge probably should not form the next government.

The Vietnamese themselves want to leave Kampuchea. They are anxious to end their international isolation and gain access to Western economic and development aid. They have lost 25,000 soldiers killed and have been unable to

vานquish the three-pronged Kampuchean resistance forces, of which the Khmer Rouge are the most powerful.

The Jakarta talks first brought together Hun Sen's Phnom Penh regime and the three Kampuchean resistance groups. Later, the Vietnamese and Laotians joined in, together with representatives of the six states comprising the Association of South-east Asian Nations, which have a regional and economic interest in peace in Indo-China.

The key figure is Prince Norodom Sihanouk, the former Kampuchean monarch and head of state who heads one of the guerrilla groups. He remains the only credible personality with any chance of holding the warring factions of Kampuchea together.

Restraining factors

Prince Sihanouk withdrew, under pressure, his insistence on an international peace-keeping force to underpin any settlement. However, some form of interim peace-keeping force would seem to be essential if the various factions are to be restrained following a Vietnamese withdrawal. The fact that Prince Sihanouk has withdrawn his demand does not mean that it cannot be resurrected later.

The headline news yesterday was of recriminations, with each side blaming the other for blocking progress and preventing the unity needed for a joint communiqué. But the more important news was that Hun Sen and Prince Sihanouk will meet again privately in October and a working group representing all parties to the talks, including the Asean states, will examine key areas of disagreement and evaluate before the end of this year the usefulness of reconvening the full talks.

In short, the momentum is still towards a peaceful solution for the impoverished people of Kampuchea who have been battered almost continually since independence from France in 1953. The onus now is on China and the Soviet Union to ensure that their respective clients do not half that momentum.

Truth will out

■ There are several surprises about *The Secret Life of Wilkie Collins*, which will be published by Allison & Busby on Monday. The first is that it is written by William M. Clarke. Clarke is best known for his

work on and in the City and especially for his chairmanship until last year of the British Invisible Exports. The second is that he really does unravel well, almost the secret life. And the third is that Clarke is married to Collins' great-grand-daughter. A large part of the story was previously known.

Collins, author of *The Woman in White* and *The Moonstone*, was one of those Victorians not markedly constrained by the moral climate of the time, though in many outward respects he conformed. At one stage he took Charles Dickens off to Paris to show him what women could be like.

There were two main women in Collins' life, Caroline and Martha. The three of them ended up in Paris, living together. Collins had children by both of them. What has been lacking until now, however, is information about these descendants.

The decision of the family to come clean, as it were, came after a review by C P Snow of an earlier book about Collins in the Financial Times in 1974. Snow wrote: "Apparently, they don't wish to be recognised. If I were they, I should be proud of such an ancestor, one of the oddest, most gifted, and by all accounts most likeable figures of the Victorian age."

That, and a similar review in the Sunday Express, changed the family's mind. Sensibilities about illegitimacy were overcome and now we know the story. Almost a Collins novel in itself.

Clean Games

■ The organisers of the Seoul Olympics are making extraordinarily confident noises about the great pagan festival that starts on September 17. The

OBSERVER



"Very well...Alone."

Korea National Tourism Corporation (KNTC) says that Olympic fever is rising and the mood in Seoul is being "intensified" with perfect preparation.

Construction work finished in early June with the last coat of paint applied to the swimming pool. The facilities and venues have gained "unstinted praise" from the leaders of the Olympic movement. The streets and avenues of Seoul are "being soaked in an Olympic mood."

Foreigners have already bought more than 400,000 tickets. And the authorities have conducted an English contest for over 50 taxi drivers in Chonchil, "to improve the English-speaking standard of drivers who greet foreigners as their guests."

The KNTC reckons that "assisted by a nationwide concern for spotless security, convenience and hospitality, the Seoul Olympics is highly foreseen to end in signal success resulting from large-scale and supreme teamwork and unsparing volunteers' support as well."

Not that it's easy to get there. All flights are jammed. A colleague was told yesterday that he could still get into Seoul, but that he couldn't get out - not until October 10, eight days after the pagan festival ends, though that was first class.

Tory for LSE?

■ If Nigel Lawson really is looking for a job after his final budget next year, there is one intriguing post still open:

Director of the London School of Economics.

He has all the intellectual qualifications and would bring enormous prestige besides. His salary could probably be raised accordingly and there is no reason why he should not retain his seat in the House of Commons, if he has not already moved to the Lords.

And if the LSE is not physically the most attractive above in the country, it is always possible, like Ralf Dahrendorf, to move on from the directorship to an Oxford College.

It is, of course, conceivable that he would not accept the job if offered. But it does seem extraordinarily timid of the selection board not to have sounded him out.

Meanwhile, there is another story going the rounds about Lawson. He goes to the Prime Minister in August (this August, not next) and tells her he is resigning.

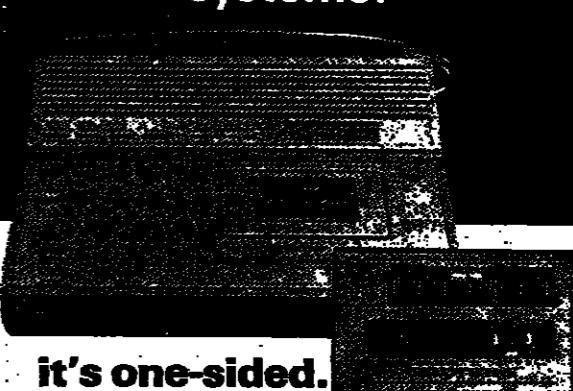
"Tell me, Nigel," she says, "what job would you really like?"

"I'd like to be Chancellor of the Exchequer," he replies.

■ Kenneth Baker, the Education Secretary, prides himself on his use of words. So what are we to make of his comment on Paddy Ashdown, the newly elected leader of the Social and Liberal Democrats? "The shallowness of Mr Ashdown runs very deep," he said this week.

Baker's wit

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SH

Quentin Peel reports on Moscow's changing attitude to external relations

The foreign face of perestroika

For three days this week more than 1,000 top Soviet diplomats, ministers, key party officials and members of the military high command have been in conference at the Ministry of Foreign Affairs.

Every Soviet ambassador was recalled to Moscow for the event, according to those in the know. Mr Eduard Shevardnadze, the Foreign Minister, presided, and the list of important guests included Marshal Sergei Akhromeyev, Chief of the Soviet General Staff, and Dr Gury Marchuk, president of the Soviet Academy of Sciences.

The exercise was dedicated to a rethink of Soviet foreign policy, a sort of Communist Party conference for the foreign service. The aim, said the Soviet news agency, Tass, was "to make perestroika in diplomacy irreversible."

Glasnost has not gone so far that details of the debate have been made public. Yet the signs are that some very straight talking took place about the successes and, more notably, the failures of Soviet foreign policy. And Mr Shevardnadze certainly set the whole event off with a bang.

Gone were the slogans of support for liberation struggles. Even the class struggle itself was a victim of his onslaught. "Co-existence based on the principles of non-aggression, respect for sovereignty and national independence, and non-interference in internal affairs must not be equated with class struggle," he declared.

"The struggle between the two systems is no longer the decisive factor."

He went further. Foreign policy was about economic development, he said, in a phrase which would have done credit to his rival Mr George Shultz, the US Secretary of State. It was about "the ability to advance people's welfare at a fast pace through the use of the latest achievements in science and engineering."

So what is happening in Moscow? The whole affair comes at a time when there seem to be moves towards peace all round the globe. Iran has finally sued for a ceasefire in the Gulf war. South Africa, Cuba and Angola are talking hard terms of military disengagement in southern Africa. And the combatants of Kampuchea have been in Indonesia making an effort to find an end to their appalling bloodletting.

In Afghanistan, the Soviet Union's home-grown regional conflict, the withdrawal of Soviet troops continues apace, in spite of steady flow of arms to the opposing guerrilla forces and growing indications that the Kabul regime is tottering.

Soviet client states around the world seem suddenly to be talking sweet reason. Even North Korea is making conciliatory noises towards its bitter rivals in Seoul.

It would be tempting to see the hand of Moscow in it all, as the one common factor in the willingness to find political solutions. Inevitably, reality seems to be more complex.

It was just one day after Iran announced its desire for a ceasefire in the Gulf that Mr Yuli Vorontsov, the Soviet Deputy Foreign Minister, arrived in Tehran for talks. "It was just bad luck for them to be there the day after," according to one Western diplomat. "They will still try and take the credit. But I am convinced they were just as surprised as everyone else. They have worked very hard on the Iranians, not that was because of Afghanistan, not the Gulf war."

■ As for Angola and Kampuchea: all the diplomatic leg-work for the former has been done by Dr Chester Crocker, the US Assistant Secretary of State for African Affairs, and for the latter by the foreign ministers of ASEAN (the Association of South-east Asian Nations). They have wheeled and cajoled the opposing parties to the negotiating table.

Yet even if Mr Shevardnadze and his colleagues cannot take credit for specific initiatives to solve the regional conflicts of the world (except Afghanistan), there is no doubt that the change of mood in Moscow has been a crucial contributory factor in creating a climate of negotiation.

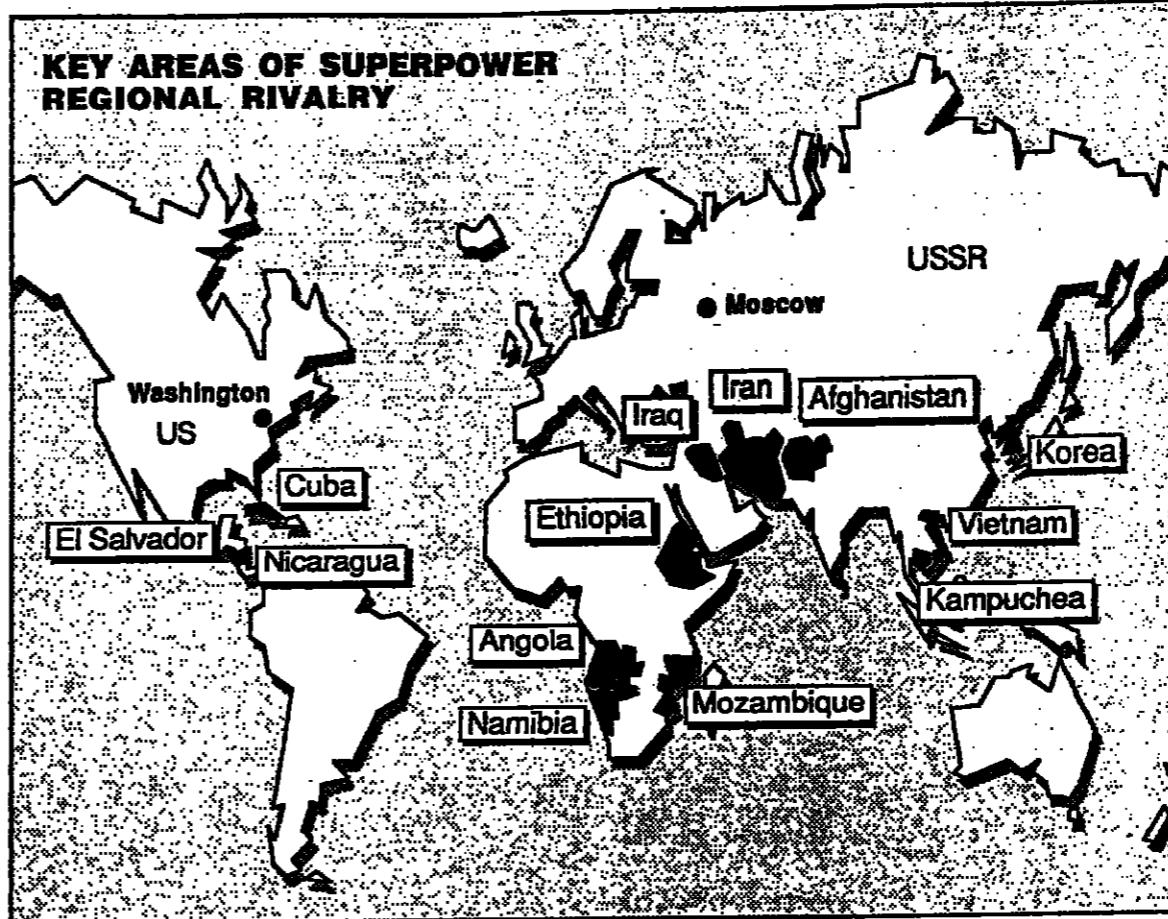
In a brave attempt to gain some credit from the Afghan debacle - in itself the biggest foreign policy blunder by the Soviet Union for decades - the Kremlin has always claimed it would set off a "chain reaction" of similar negotiated deals, involving the combatants themselves, but underpinning where necessary by superpower guarantees. That is what seems to be happening.

It is indeed ironic, and rather impressive, that such a failure should somehow be turned into a success. Yet that is exactly what Mr Mikhail Gorbachev seems to be attempting across the whole range of Soviet foreign policy. He is seeking to turn what is little more than a policy of international retrenchment into a public relations exercise in peacemaking.

In spite of the fact that President Andrei Gromyko, the personification of Soviet foreign policy as Foreign Minister from 1957 to 1985, is still a member of the ruling Politburo, the period of his rule and the substance of his policy is now almost universally reviled. That was a clear message in Mr Shevardnadze's address this week.

"We failed to use all the possibilities for preventing the emergence of the iron curtain, for lowering the level of military spending."

That is undoubtedly too simplistic. Defence spending alone did not cause the rethink of foreign policy. Another factor was the extent to which the Soviet Union found itself supporting a whole range of economic disasters: Cuba and Vietnam both take millions of dollars a day in hidden subsidies. Mozambique and Ethiopia, not only



confrontation and curbing the arms race," he said.

He went on to deflect the blame slightly from his predecessor, who is regarded with a sort of sneaking admiration for his sheer staying power in the party, by pinning it rather on domestic policies. Indeed there is no doubt that it is the crisis at home, the chronic stagnation of the Soviet economy, which greeted Mr Gorbachev on his accession to the leadership, which has been the major factor behind rethinking policy abroad.

He went on to say that the need to concentrate on domestic reforms, both economic and political, which has pushed the Soviet leadership down the path of reducing its direct involvement in international trouble spots.

The biggest challenge is not disengagement from Third World adventures, but promoting a new modus vivendi in Europe

The most obvious pressure came from the sheer level of military spending, put at somewhere between 15 and 20 per cent of national income. "One of the reasons the West imposed the arms race on us was to exhaust socialism economically," Mr Shevardnadze told his audience. Indeed some Soviet planners now seek to blame most of the failure of the Soviet economy on the level of military spending.

That is undoubtedly too simplistic. Defence spending alone did not cause the rethink of foreign policy. Another factor was the extent to which the Soviet Union found itself supporting a whole range of economic disasters: Cuba and Vietnam both take millions of dollars a day in hidden subsidies. Mozambique and Ethiopia, not only

impoverished but also drained by interminable civil wars, have proved little less expensive.

The Soviet Union has found itself, in effect, providing a double subsidy for its international adventures: economic support for

POLITICS TODAY: JOE ROGALY

The sands of Thatcher time

Not even Thatcherism lasts forever. The best way to comprehend this is to get out of Britain.

Here in London, the political atmosphere is suffocating we seem to live in a one-party state under an all-powerful Prime Minister who seems set to go on and on and on. A visit to the US, where the Democrats have lost four of the last five presidential elections, is, however, instructive. After the 1984 election, in which Mr Walter Mondale was soundly thrashed by President Ronald Reagan, the Democratic Party fell into despair. It was hopelessly divided, demoralised, leaderless, and up against a system of voting by electoral college that seemed to give the Republicans a probable hold on the White House for the rest of this century.

That system is still in place, yet the year that Mondale stood a chance of winning back the presidency. (One reason is that the Republican candidate, George Bush, has all the magnetic attraction of Sir Geoffrey Howe without the obvious competence.) Even if it loses, the Democratic Party will still be in the game for 1992. The principal reason is that Mr Michael Dukakis is an effective leader. For the time being at least he has brought together all the party's factions, from right to left, from Bentzen to Jackson. In British terms, it is as if a Labour leader had achieved unity of purpose with the joint blessings of Dr David Owen and Mr Tony Benn, plus those in between.

It is not use making the excuse that Britain is different. Of course it is. It would be easy to fill the rest of this page with a list of the differences between US and UK politics. But that is beside the point. The essence of the matter is that in 1984 the feeling of hopelessness among US Democrats was just as strong as it is in the British opposition party today. The real difference is that they got their act together.

Looking at the British scene from outside does not always work. It has not worked for Mr Neil Kinnock, whose misadventures on his recent trip to Africa may turn out to have been the proximate cause of his destruction as a credible leader of the Labour Party. If he had called on the Democrats he might have aspired to become a Dukakis; as it is he is more likely to experience the fate of a Morel. It may not work for Mrs Margaret Thatcher. She sets off today on a visit to Labor-governed Australia, with plenty of stops on the way. Yet it is unlikely that this will constitute a road to Damascus on which she discovers the virtues of community, the vices of unbribled individualism, and the inevitability of European integration.

But for us bumbling folk travel can still broaden the mind. It is now clear that on domestic matters Reaganism (with its close associations with Thatcherism) will not long survive the departure of President Reagan, even if his Vice-President succeeds him. For one thing, President Reagan was unable to balance his budget; for another Mr Bush is already making expensive campaign promises. This week he put forward a child-care scheme that nearly matches the Democrats' undertaking to provide creches for working mothers. If he were to win his administration would be likely to prove as different from President Reagan's as would, say, Mr Kenneth Baker's from Mrs Thatcher's. A senior British Tory commented wryly this week that Mr Bush would make the best head of a western government since Anthony Eden.

Bring the lesson home, and you will see that even if Britain's opposition continues to disqualify itself from office it is by no means certain that Thatcherism will survive Thatcher. Something like it might. If Sir Geoffrey became the successor, but his opportunity to take the big prize has probably passed him by. Either Mr Nigel Lawson or Mr Cecil Parkinson would try to keep the flame of ideology alive, but many of the other members of the present British Cabinet are Thatcherites for the purposes of their present unspoken contracts of employment only. If one of them became boss, the whole policy of the Government would gradually change.

The Home Secretary, Mr Douglas Hurd, is no instinctive Thatcherite. The new Secretary of State for Health, Mr Kenneth Clarke, is an able advocate and a passionate believer in the market economy, but I suspect that on social matters his eventual policy would be closest to the left of current thinking. Mr Peter Walker, a survivor of the "other" contenders, is well known for his "we're" philosophy. The Secretary of State for Scotland, Mr Malcolm Rifkind, is currently preaching Thatcherism in his square, but that is because it is his job to do so. The same applies to most of the other senior possibles, although not to Mr John Major, Chief Secretary to the Treasury.

It would be a mistake to conclude that the Cabinet is continuously in disagreement with the Prime Minister, as were her early Cabinets after 1979; nor would it be wholly correct to describe her ministers as a collection of self-seeking yes-men. It is rather that she has become so dominant that she can safely assume that whoever is asked to serve will understand the terms upon which service is to be rendered. And anyone who accepts those terms is soon infected with the enthusiasm that comes from seeing that one is part of a winning team.

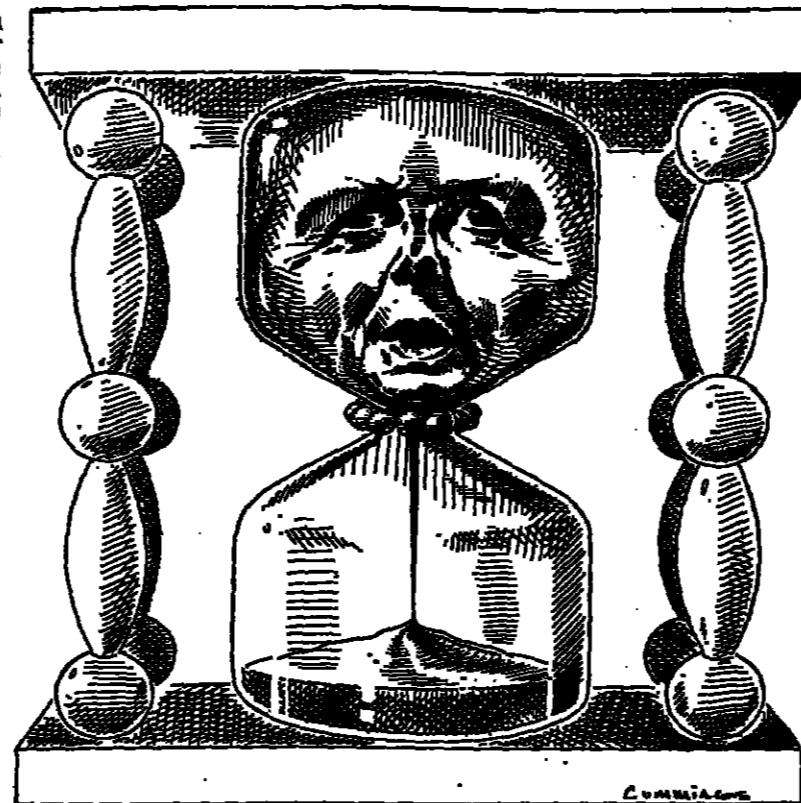
This aura of authority frees her from the need to put ideology before competence, as was shown on Monday when the undoubtedly Thatcherite Secretary of State for Health and Social Services, Mr John Moore, was left with half his departmental responsibilities after Mr Clarke was given Health to look after. (His lack of communication skills apart, poor Mr Moore may have failed to grasp that it is no good being Thatcherite on the National Health Service when the Prime Minister herself is not.)

Mrs Thatcher's authority derives from her person as well as the office she holds. Yet if she were to depart from Number 10 Downing Street at any time before the next election the principal political effect of a non-Thatcherite Conservative succession would be delayed. Most of the contentious items in the 1987 election platform are now through Parliament or ready to be pushed through in the autumn. The Great Education Reform Bill is now on the statute books. A different administration might seek to implement it in a different manner, but that is a matter of nuance rather than substance. The poll tax is now, on its way, a sensible successor to Mrs Thatcher, now or in the future, will surely at the least amend it to make it less regressive, but a reversal of policy is unlikely. The proposed new Official Secrets Act would be less authoritarian under a Prime Minister who was less obsessed with secrecy at all levels; once passed it is likely to remain unaltered on the statute books.

In the end there would, however,

be one significant difference. The manifesto for the next election, which is likely to continue the series of social policy changes, would be one thing under Mrs Thatcher, and quite another under a less ideological successor.

The story is quite different when one moves from the social sphere to the management of the economy on Thatcherite principles. In this sense, everyone is a Thatcherite now; the belief has grown up in the Conservative Party that the mystery of how to run a modern economy has been solved. Yet the consistent application of the well-known principles of privatisation, deregulation and fiscal prudence may depend most of all upon the Prime Minister herself. It is hard to think of a successor who would be as determined as she has shown herself to be to stick to policies that she believes will turn out to be right.



The present policy is to sift through the growing balance of payments crisis and let the market take care of it. The deficit is expected to grow sharply before it starts shrinking again, but both Mr Parkinson and Mr Lawson, to name but two, think that it would be splendid if this could become the first postwar Government to sweat out such a readjustment without resorting to any of the traditional stop-go measures. Guesses as to how high the deficit will rise before it turns downwards vary as much within the Cabinet as elsewhere: one figure, from an optimist, is £10bn; another, from a harder head, is £10bn-£11bn this year and £11bn-£12bn in 1989. In both cases the line is the one that is becoming familiar: the world is different today, the Government is not living on borrowed money, the deficit mainly signifies a fresh wave of investment in industry, and so on.

There is also an inclination to stick to present policies while what is foreseen is an inevitable blip in inflation, worse in the winter and not of the system. The degree to which the Government's nerve will hold depends upon how high the blip reaches, and how long it lasts. One expectation is that it will certainly reach 6 per cent, but that if it rises more than half a point or so above that the panic button will inevitably be pressed. Here again, the general line is that it all depends upon maintaining confidence in the British economy under Mrs Thatcher and Mr Lawson. All ministers are being made aware of this. Mr Parkinson, the minister in charge of the Star Chamber procedure for keeping excessive departmental expenditure bids at bay, will certainly be telling the tale to persistently importunate claimants. He will add, as a finale, that confidence will not be maintained unless the Government sticks to strict expenditure controls.

It will be seen that such a strategy could quickly fall apart under a Prime Minister of less than iron resolve. It would be a matter of an extra billion or two on public expenditure in the first year and larger amounts thereafter. True believers might find this hypothesis distressing; one minister wonders whether it would mean that Mrs Thatcher would turn out to have been like the Byzantine ruler Justinian I, named by his contemporaries as the "emperor who never slept". (He engendered a late flowering in Rome, but did not halt the long decline that buried all traces of the old Roman Empire.) The rest of us are less star-fairy. We will simply be relieved if the sands of time return Britain to an emphasis on what is meant by social in the social market economy.

Britain's community charge The crude virtue of the poll tax

By Giles Keating

Money is inherent in tax reform: Some individuals receive a windfall gain, usually at the expense of others. Distortions of one sort or another are generally at the cost of creating or worsening some other distortion. For example, Mr Nigel Lawson's lower-rate National Insurance contributions reduced the large deductions from income that had deterred the unemployed from seeking work, at the cost of creating 100 per cent-plus marginal rates slightly higher up the income scale; and his corporation tax reforms had similarly mixed effects.

Merely replacing domestic rates by the poll tax will not give this optimal outcome, because local authorities could increase taxes on businesses. When local businesses decline due to high rates, the voters cannot easily distinguish this from the effect of national economic policies. Also, the employees and owners of businesses often live outside the local authority area that taxes their business. By contrast, at the national level almost all the taxpayers and owners of businesses have a vote and are likely to blame the government for a slump induced by higher business taxes.

The local power to tax businesses will be removed by the unsung introduction, alongside the poll tax, of the uniform business rate fixed nationally. Moreover, the uniform business rate reduces wage inflation, at least partly offsetting the much-trumpeted boost to wages from abolition of its domestic counterpart. This is because, broadly, business rates will decline in many high unemployment areas, and rise steeply in wealthy "Roeland" around London. Developers will be encouraged to provide factory space in areas where spare labour is available, reducing pressure on wages. The effects are difficult to predict and will be complicated by new rateable values, but that is no reason for ignoring this key element in the reform.

So the Government's reform of property taxes does give a messy mixture of effects. If the reform were combined with a new type of housing taxation, there would be an improvement in resource allocation. Even without that new tax the adverse effect on wage inflation from abolishing domestic rates is at least partly offset by the impact of the uniform business rate, and there will be better decisions on the level of local authority spending.

The author is European Economist at Credit Suisse First Boston

LETTERS

'How much can the state now do?'

From Dr Aaron Nejad.

Sir, Baroness Blackstone claims that the new left-of-centre Institute for Policy Research will provide a challenge to the intellectual dominance of the right-wing think tanks, and explode some myths. But although she concedes that state intervention in the market has not always worked, she must be cautious not to perpetuate left-wing myths about the power of the state. How much can the state now do?

Technological change and the internationalisation of trade have increased the com-

petitive pressures in the world economy. This has posed new problems for the state sector, traditionally associated with inertia and inefficiency. In addition, multi-national enterprises which control huge economic resources – and are prepared to mobilise them quickly and effectively – have often undermined industrial policy, and are gradually lowering the mass of the state as the main instrument for industrial policy.

Witness how Japanese corpora-

tions can influence profoundly the attitudes of workforces, trade unions and even governments. Often multi-national enterprises can effect economic changes so quickly and effectively that the state is rendered helpless to intervene. Similarly, the power of the state has been eroded by the increasing importance of "supra-state" organisations such as the European Community (EC), the International Monetary Fund (IMF), the World Bank, and even the United Nations.

Witness again the influence of the EC over the Govern-

ment's negotiations with British Aerospace in the Rover group sale. The deregulation of

the stock market is a dramatic demon-

stration of how little the state can do.

In 1974 the crucial factor seems to have been the insurance companies' attempt to become not sellers of company securities, briefly abandoning their necessary role of mapping up the regular sales made by the personal sector to cover capital taxes and to invest in single premium insurance bonds.

In the last quarter of 1987 it seems to have been the personal sector sales that damaged the UK equity market – but in the British institutions which wrecked the overseas markets with sales total surely, has the power of the

state to do more than two fifths of the seats.

The recomposition of political forces arising from the July 6 election has been the answer that the Mexican electorate itself has given to its own aspirations for political change. Restoring economic growth, on a sound and sustainable basis, and reducing inequality, appeared clearly as the other major demand. The wide implications of this demand for change, in terms of new approaches to international economic and financial cooperation, cannot be ignored. Jorge Edmundo Navarrete, Mexican Embassy, 8 Baldwin Street, SW1

of the Congress, where the different opposition parties will hold more than two fifths of the seats.

Mexico's political landscape is a new one from July 6. The long-dominant ruling party, although retaining a majority in the presidential vote, is now part of a more balanced, pluralist scheme, in which other parties will play a larger role than in the past. The richness of political options open to the country cannot be contained any longer in a single dominant party system, or even a bipartisan one. This new balance of political forces will be fully reflected in the composition of the legislative bodies, particularly in the lower house

Incentive to under-invest

From Mr A. Badger.

Sir, Your perceptive editorial about regulating a privatised water industry (July 21) missed drawing an important conclusion.

The Government has nailed its flag to the mast of price regulation on the grounds that it prompts efficiency. But as you point out, price control coupled with an obligation to provide profits to shareholders also creates a direct incentive to under-invest.

In a capital intensive busi-

ness like water, the scope for efficiency improvements which would provide a meaningful benefit to shareholders – or customers – is limited. On the other hand, the prospects for getting away with under-investment, when 70 per cent of

the assets are buried, must be pretty good unless close regulatory scrutiny is imposed.

Resolving the conflict of interests of customers and shareholders in an essential service like water is an old problem. The existing 28 private statutory water companies do not have a regulator, but for over a century they have satisfied customers with their service, and investors with a fair, albeit limited, rate of return.

Surely this should be the way forward rather than the unthinking adoption of the Government's standard privi-

legation model?

A. Badger,
34 Ruskin Close,
Rugby, Warwickshire

the assets are buried, must be pretty good unless close regulatory scrutiny is imposed.

All political forces are living up to their commitment to use only legal procedures to present, publicise and defend their particular opinions and positions about the election results. Parties and authorities are operating within a constitutional framework that no one wishes to undermine.

However, the results themselves, as announced by the Federal Electoral Commission, bear witness to the broad openness and fairness of the election results. Parties and authorities are operating within a constitutional framework that no one wishes to undermine.

Since polling day, all political parties have maintained a high public profile through a lively debate and nearly daily public rallies. All these are being conducted in a peaceful, orderly way. Various political parties have lodged complaints about alleged irregularities and the legal process to review the evidence presented is already underway. A newly-established independent tribunal is considering the complaints and will rule about them in the next few weeks. Later on, the electoral colleges of both houses of

the Congress, where the different opposition parties will hold more than two fifths of the seats.

The recomposition of political forces arising from the July 6 election has been the answer that the Mexican electorate itself has given to its own aspirations for political change. Restoring economic growth, on a sound and sustainable basis, and reducing inequality, appeared clearly as the other major demand. The wide implications of this demand for change, in terms of new approaches to international economic and financial cooperation, cannot be ignored. Jorge Edmundo Navarrete, Mexican Embassy, 8 Baldwin Street, SW1

of the Congress, where the different opposition parties will hold more than two fifths of the seats.

Mexico's political landscape is a new one from July 6. The long-dominant ruling party, although retaining a majority in the presidential vote, is now part of a more balanced, pluralist scheme, in which other parties will play a larger role than in the past. The richness of political options open to the country cannot be contained any longer in a single dominant party system, or even a bipartisan one. This new balance of political forces will be fully reflected in the composition of the legislative bodies, particularly in the lower house

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New issue July 28, 1988

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SECTION IV

FINANCIAL TIMES SURVEY



More than 40 new satellite television channels are due to be launched over the next two years, and

there are plans to manufacture a million low-price domestic receivers. But will viewers want the programmes that will be on offer?

Raymond Snoddy reports

Programme of expansion

SATELLITE television, after years of delays, disappointments and losses, appears to be poised on the edge of significant growth — growth that could mean a large increase in the number of television channels available to viewers and the arrival in volume of a new electronic consumer product, the direct-to-home receiver.

Between now and early 1990 television satellites capable of broadcasting more than 40 channels direct to dish aerials on individual homes are scheduled for launch.

The surge in interest was best symbolised last month when Mr Murdoch, the Australian-American publisher, stood amid swirls of dry ice and insulation music at a London press conference and announced plans for four television channels on Astra, the Luxembourg-based satellite project due to be launched in November.

In addition to upgrading Sky, the general entertainment channel launched in 1981, Mr Murdoch said he was launching a film channel, a news channel and, in a joint venture with other European broadcasters, a sports channel.

But it was not just the four channel package that created headlines around the world. Not only would the channels



Satellite Broadcasting

mented Mr Gunnar Rugheimer, managing director of Galaxy, BSB's general entertainment channel.

Mr Anthony Simonds-Gooding, the BSB chief executive, envisages BSB as the "third force" in British broadcasting after the BBC and ITV. If consumers do, however, buy the \$199 receivers in large numbers it could put a serious dent in BSB's hopes of reaching 400,000 homes in its first year.

To further complete the picture Mr Robert Maxwell, WH Smith and British Telecom have brought together a third block of existing channels already available on low power telecommunication satellites into a single package for transfer to a medium power direct-to-home satellite. The plan

is either to transfer them to Astra — although they will use the D-MAC standard because the aim is to offer them as a subscription package — or to wait for the launch of Eutelsat II, a new 16-channel television satellite due to be launched by the European Telecommunications Satellite Organisation early in 1990. At the moment the group appears to be leaning towards Eutelsat, although no final decision has yet been taken.

Mr Ted Turner's 24-hours a day news channel, Cable News Network, is, however, likely to opt for Astra, although it has not been decided yet whether to use PAL or D-MAC.

For the consumer and the electronics industry there is now the real possibility of

three different satellites with three different standards. Although the manufacturers say they will be able to deliver motorised equipment that could pull in pictures from all the main satellites, the cost is unlikely to be much less than \$800.

The proliferation of new channels and dishes could provide a boost for cable television which has the capacity to collect all the available satellite channels and distribute them to the consumer as a retail service. By law the modern cable networks, now with a total of 45,000 subscribers, have to carry the three BSB channels.

Already there are more than 20 channels available on low power satellites over Europe, largely delivered to the consumer by cable, although none are believed yet to have broken even. The available channels include WH Smith's Lifestyle and Screensport channels; Premiere, the film channel; Super Channel, owned by Virgin and a consortium of ITV companies; and RAI Uno, the first Italian channel re-broadcast by satellite for Italian expatriates throughout Europe.

The creation of a new direct-to-the-home market will, however, come at the very time when there is an enormous intensification of competition for the viewer's time and money.

In the UK, commercial television is now broadcasting 24 hours a day and the government is likely to give the go-ahead for a fifth conven-

tional television channel, and possibly even a sixth. In the past two years the proportion of homes with video recorders has risen to more than 50 per cent and the VCR video rental market is now estimated to be worth more than £500m a year.

Against such a background, Frost and Sullivan, the US consultants, forecast in a study of the market for DBS in Western Europe published earlier this year that by 1997 about 19.5m households in Europe would be able to receive satellite television on their own receivers or on SMATV systems — delivery to a single antenna servicing a block of flats. About 9.5m would be receiving DBS new channels through individual home reception equipment.

The report was published before Mr Murdoch's announcement.

Mr Patrick Whitten, managing director of CIT Research, a UK communications consultancy which has been following the development of cable and satellite since 1983, is much more pessimistic.

"By 1998 we think nearly 30m homes in Western Europe will receive satellite television but only about 1.5-2m will be received direct, the rest will be on cable which we see growing at 9 per cent a year," said Mr Whitten.

In the UK Mr Whitten, who says his projections assume that many of the things that could go wrong actually do, believes that 2m to 3m homes will be receiving satellite television but only 500,000 of them direct with their own equipment.

Mr Whitten points out that last year the main four satellite channels, Sky, Super Channel, Sat 1 and RTL Plus, had total revenues of 61m Ecu (\$40m) and total losses of 150m Ecu (\$85m). Certainly, until now, the fate of the national high power DBS satellites has not been a happy one. More than 10 years after the World Administrative Radio Conference allocated five DBS channels to most nations, not a single European DBS project has actually begun broadcasting.

The West German TV-Sat, scheduled to broadcast two private and two public service channels, was successfully

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Data: Potential for using parts

of the TV bandwidth for data

I

launched last November but the satellite never worked properly and eventually had to be declared a total write-off by its owners the German Bundespost.

The second TV-SAT is scheduled to be launched next summer although, in the meantime, the commercial channels RTL Plus and Sat 1 have been dramatically extending their audience by broadcasting on normal broadcasting frequencies in addition to cable television. Earlier this month the private broadcasters got access for the first time to terrestrial frequencies in the important area of North Rhine-Westphalia and its 22m population.

The deal, which gives the commercial broadcasters access to spare frequencies does, it is believed, also include an obligation to use a German DBS satellite when one becomes available.

In France TV-SAT's twin TDF-1 is still sitting firmly on the ground although it is due to be launched by Ariane in October. Apart from the fact that it will carry 14 Sept., a cultural channel, and possibly 16 channels of digital stereo radio, final decisions have not yet been taken.

There seems to be no takers at all for Tele-X, the £170m Swedish, Norwegian and Finnish DBS satellite for which neither broadcasters nor telecommunications operators seem prepared or able to pay.

In Ireland, Atlantic Satellites, a company 50 per cent owned by Hughes Communications of the US, has been awarded a 10-year contract to operate an Irish DBS service which would, in effect, be aimed at the UK market. It is not clear when, or even if, such a service will be launched.

The number of people who will be persuaded to buy new domestic equipment because of the technological beauty of satellites will be limited indeed. The battle will be won or lost on the quality of the programmes: the new broadcasters will need to produce programme for which the consumer is prepared to pay, or they need to be attractive enough to provide audiences too interesting for advertisers to ignore.

Modern technology provides a vivid contrast with the tools available 900 years ago when William the Conqueror compiled his Domesday Book survey of Anglo-Norman England.

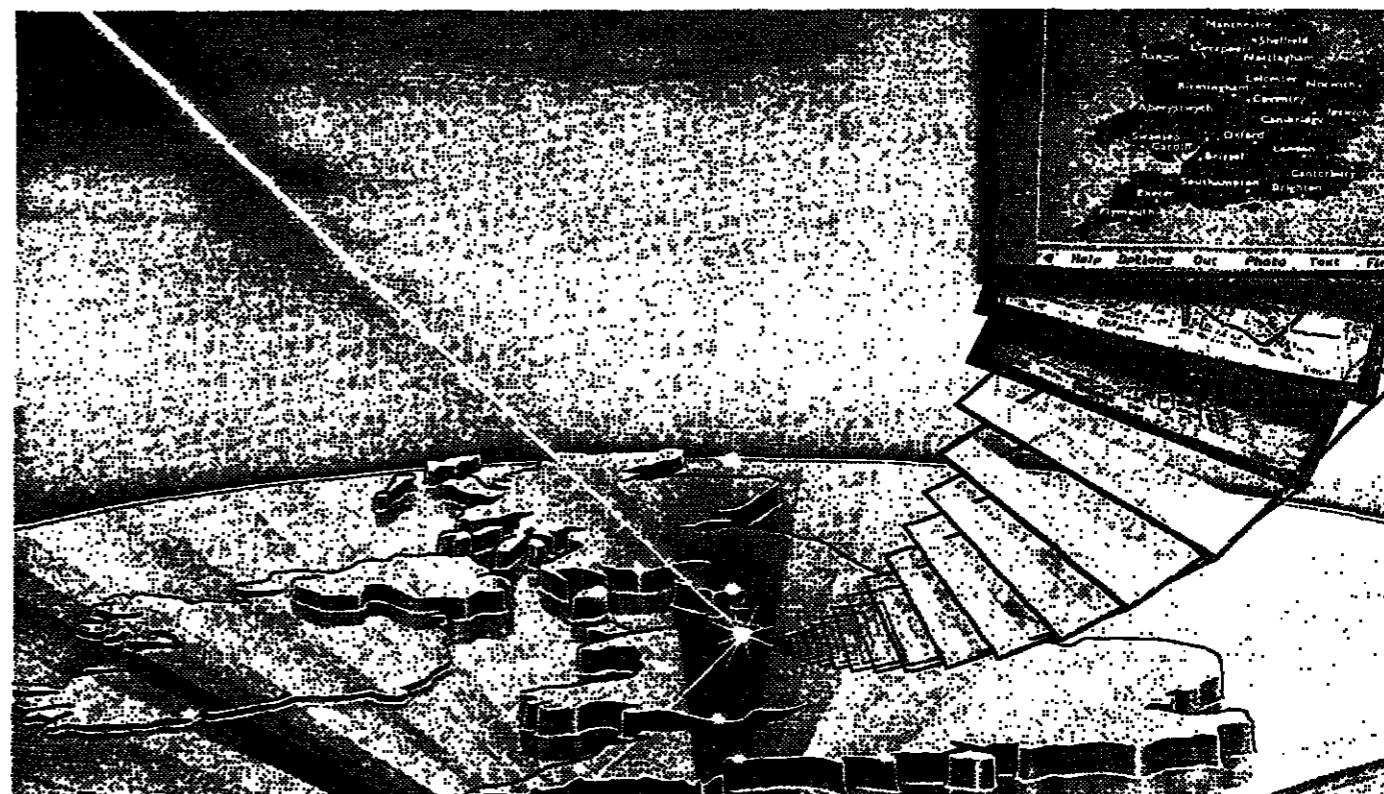
For if the British Broadcasting Corporation's 1986 Domesday Project was also published in book form, it would fill over 300 volumes and take seven years to read.

Instead, this ambitious survey of 20th century British life, comprising 250,000 pages of text, 50,000 photographs, 24,000 maps, 60 minutes of video and millions of statistics, is printed on only two LV-ROM (LaserVision-Read Only Memory) discs of the Advanced Interactive Video (AIV) system.

In a matter of seconds, anyone can find anything, anywhere on the discs. Texts can be studied, commentary heard, map routes explored, and data evaluated - in any sequence, at any pace.

Invented by Philips, LV-ROM technology opens a window through which users can access a vast store of text, image and numeric data as well as audio, video and computer programs.

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Philips opens a window to a new look at life.



In February 1986, just a few hours after being placed in an 817 km quasi-polar orbit, the French remote sensing satellite SPOT-1 began transmitting some of the most detailed images of the earth ever recorded from space.

It was the prelude to a non-stop photo-survey of the entire globe.

During each orbit SPOT-1 makes tens of thousands of images for comparative study purposes in applications ranging from agronomy and hydrology to ecology, geology and oceanography. Thus contributing to a better understanding of life on earth.

The attitude sensors and detection unit that form the 'eyes' and the 'heart' of SPOT-1 panchromatic and multispectral imaging systems (High Resolution Visible, HRVs) were designed by SODERN, a high-tech French company associated with the Philips organization.

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PHILIPS

SATELLITE BROADCASTING 2

British Satellite Broadcasting's plans in the face of early competition



BSS's Hughes HS 376 satellite: three new UK services in 1989

THE CONTEST between British Satellite Broadcasting, Britain's £625m direct broadcasting by satellite venture, and the ITV companies for the rights to televise football has been tense, at times a little rough and has just gone into extra time.

BSS went into a dramatic lead in May when the satellite company which plans to launch three new channels of television in the autumn of 1989 announced a plan for a joint venture with the Football League and the Football Association which would guarantee football a minimum of £3m a year in television rights.

ITV, as interested in stopping BSS as in how many live Sunday afternoon football games it could cover, struck back with a unilateral offer to "top ten" first division clubs, an offer that carried with it the danger of splitting the Football League.

After BSB increased its minimum guarantee to £1m a season and ITV put on the table a competing offer worth a total of £52m over four years, the football authorities are jumping with joy at the effect BSB could have on the traditional broadcasting environment in the UK.

The satellite company plans to spend up to £120m a year on its three channels: Now, with sport, live events and eight hours of news a day; Screen, the subscription film channel; and Galaxy, the family and general entertainment channel.

"For 30 years we have got a

pittance because they (BBC and ITV) got together. We have another market now. We have BSB," Mr Jack Durnett, former president of the Football League, said earlier this month.

The winner of this particular match will be decided at an extraordinary meeting of the League on August 8. The BSB offer appeals to many clubs because it offers a long-term partnership to share all revenues flowing from the exploitation of UK football rights around the world and the potential for pay-per-view — the charging of subscribers to watch top individual matches. The first division clubs have, however, decided to back ITV.

The battle for football rights is just the most dramatic and public sign so far of the effect BSB could have on the traditional broadcasting environment in the UK.

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plate the funding of the project.

The company is clearly looking for the premium programmes which include the Bond Corporation of Australia, Reed International and Next, the retail group, to pay for the manufacture and launch of two high power satellites and get the service under way. Later next year BSB will go to the City to raise a further £400m to com-

plete the BSB business plan, which envisages reaching 1.5m homes by the third year, is firmly based on subscription revenue particularly in the early years of the 15-year franchise before advertising builds up.

"We are still the best show

Ambitions to be the best

It is a high cost and high risk project — and Astra should be a formidable competitor.

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The BSB business plan, which envisages reaching 1.5m homes by the third year, is firmly based on subscription revenue particularly in the early years of the 15-year franchise before advertising builds up.

All BSB channels will be scrambled and each subscriber will have his own personal identification number with a monthly charge of about £10 a month for Screen, while the other two channels will be financed by advertising.

"The plan is to offer at least one high quality film a day that is different," said Mr Andy Birchall, managing director of Screen. Mr Birchall added that he had reached agreement with a number of film distributors to gain access to "close six months after theatrical release."

In the battle against competitors such as Mr Murdoch, BSB will have smaller dish aerials — 35cms to 45cms compared with 60cms to 75cms — and a more sophisticated technical standard, D-MAC, capable of carrying digital stereo sound and the eventual move towards higher definition television pic-

tures.

Although it is taking its time seriously, BSB is clearly both a high cost and a high risk project and Mr Murdoch's plans should make Astra a more formidable competitor than once seemed likely.

Around £225m has already been raised from the founders

and Mr Buehner, a former senior BBC executive involved in the two previous failed attempts to get BBS off the ground.

"I always believed it could be done. We have now got the right skills together for the first time under one roof," added Mr Buehner.

BSS is studying a wide range of marketing promotional plans to get as many receivers to be produced exclusively by between three and five manufacturers for the first three years, out into the market as quickly as possible.

One possibility is that subsidised receivers will be given to all those who pay a subscription in advance, perhaps for a year. Free receivers may be given to opinion formers and another possibility is that, rather like the Channel Tunnel, shares will be offered to the public accompanied by free initial subscriptions for those who buy the equipment.

But in the face of the early competition from Mr Murdoch, Mr Simonds-Gooding is clear that the challenge now will be to persuade the consumer of the quality of the programmes. BSB plans on offer in order to stop people going for him and to wait for us."

Raymond Sneyd

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provide the companies with substantial revenue which, to some degree, will enable them to subsidise their commercial work.

The three concerns have, however, hardly set the world on fire so far through picking up commercial orders. All are due to start their commercial operations either next year or in 1990. McDonnell Douglas has a useful order for launching two direct broadcast TV satellites to be operated by British Satellite Broadcasting. These vehicles are due to enter space in 1989 and 1990.

McDonnell Douglas has won a contract from Intelsat, the international satellite communications body, for the launch of two Intelsat-6 vehicles in 1989 and 1990. It is also due to take into space in 1989 a vehicle owned by Japan Communications Satellites, a Japanese venture.

Possibly the most promising

lead for the company is an arrangement with General Electric, the US satellite builder, under which Martin Marietta is due to launch a series of up to 15 communica-

tions vehicles which General

Electric is to construct for

substantial customers during the 1990s.

This deal is, however, to some degree provisional, since it will depend on General Electric itself gaining orders for satellites over the period.

General Dynamics, mean-

while, looks the least well

placed of any of the three US launcher companies. It will start its launcher operations in 1990, a year after the other two, and has not chalked up any very significant orders so far.

One factor which overrides everything in the launcher market is that the number of commercial vehicles due to be taken into orbit in the 1990s is likely to be significantly fewer than was predicted even five years ago. Euroconsult's figure of an average of 16 a year compares with some estimates of 20-25 a year made in the early 1980s.

With this factor in mind, it may be that at least some of the US launcher companies, which do not have the same start in the launcher market as ArianeSpace, may find it difficult to make headway over the next few years.

Peter March

LAUNCH VEHICLES

French have a head start

organisations charge roughly the same for launch services as ArianeSpace.

The figures for Euroconsult are for satellites operating only in the geostationary orbit 36,000km above the earth which is the most popular place for communications satellite.

ArianeSpace is thought likely to account for about half the total market for commercial space launches over the next few years. It charges some \$50m for a launch of a conventional telecommunications vehicle of about 12 tonnes.

Exactly what the market will be is largely a matter of guesswork. The best estimates of Euroconsult, a consulting group based in Paris which specialises in the space industry, is that over the period 1989-96, an average of about 16 commercial satellites a year will be taken into orbit.

This adds up to a total launcher market over this time of some \$600m, assuming other

development costs of Ariane,

the bill for which has been footed by West European taxpayers. For using a launch pad in French Guiana operated by ESA it pays only a fairly modest fee which is far less than the cost to a private organisation.

It is the cost of setting up a launch operation from scratch.

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In other respects

Astra, the satellite chosen by Mr Murdoch, should be operational by the end of the year

The battle to be 'hot-bird' is far from over

ON NOVEMBER 4 this year, if all goes according to schedule, the European space rocket Ariane will blast off from French Guyana and place Astra, a dedicated 16-channel television satellite, into orbit.

By December the satellite, owned by the private Luxembourg company Société Européenne des Satellites (SES), should be operational and capable of broadcasting its channels over much of Western Europe but in particular to the three main European markets of the UK, West Germany and France.

Astra is noted for being the first medium power satellite to be launched in Europe powerful enough to deliver pro-

grammes direct-to-the-home as well as feed channels to the cable television networks of Europe. Its channels can be received over the southern half of the UK with a 60cm dish but for northern England, Scotland and Northern Ireland 75cm will be needed.

It is also the first private sector satellite to be launched outside the Eutelsat and Intelsat international satellite organisations operated for national post and telecommunications authorities.

Since the beginning of June Astra has probably been best known as the satellite chosen by Mr Rupert Murdoch to realise his television ambitions.

On June 8 Mr Murdoch,

whose News International group controls Sky Channel, the first satellite entertainment channel in Europe, announced at a press conference that he had leased three satellite transponders on Astra from British Telecom International with an option on a fourth.

Now Sky would be joined by three new channels — Sky News, Sky Movies and Eurosport, a joint venture with a group of Europe's public service broadcasters including the BBC.

Even more significant for the shape of future competition Mr Murdoch decided to go for the most straightforward approach. It is envisaged that the channels would be "free", financed by advertising, and to keep the cost of the receiving equipment to a minimum the standard used would be PAL, the same as existing television sets in the UK and most of Europe.

By Mr Murdoch's side when the announcement was made was Mr Alan Sugar, the consumer electronics entrepreneur and chairman of Amstrad, who said he expected that the retail price of basic PAL receiving equipment, including valence tax, would be £199, although a more sophisticated version with remote control would cost £254. One million receivers would be available in the first year, he promised, and Dixons, the consumer electronics retailer, would take 500,000 of them.

At the time, the move seemed decisive. Mr Murdoch had done it again and pulled off the television equivalent of the dramatic move of his British national newspapers to Wapping, leaving the opposition trailing in the wake of another master stroke.

It would, of course, cost a lot to run four channels without

subscription income. But he was acquiring something that could not be bought in any other way. In effect he has acquired a national four-channel commercial franchise, potentially covering the whole of the UK, without having to ask the permission of either the Independent Broadcasting Authority or the Home Office because the signals would be coming from outside UK jurisdiction.

The programmes on Sky, the general entertainment channel which first began broadcasting in 1982, would be upgraded and three new channels created by February.

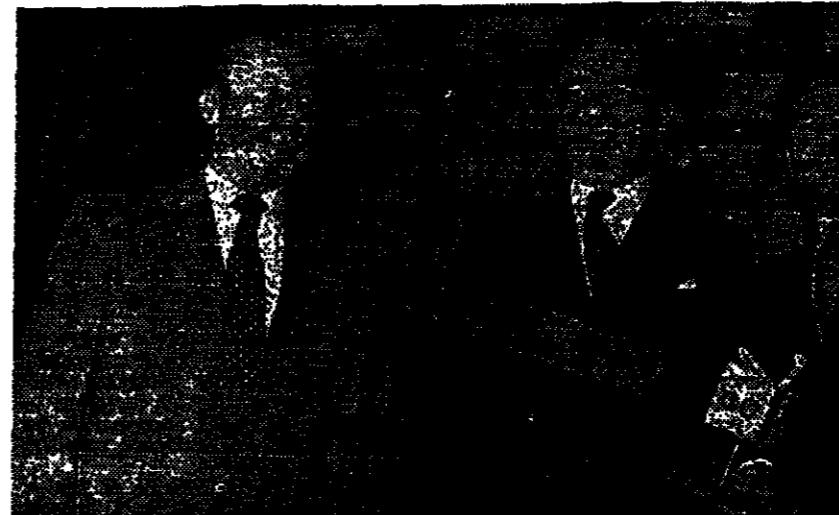
For Astra the deal, worth \$100m over 10 years, broke the logjam of potential users negotiating for transponders but not actually finalising committing themselves.

It also gave an enormous boost to Astra's strategy of trying to become the "hot-bird", the satellite that all the channel operators would want to be on and all the dishes would be pointed at.

For British Satellite Broadcasting the Murdoch initiative seemed to spell enormous trouble. While the high-power, high-cost venture really be able to raise second round financing of £240m for its three channels in the autumn of 1989 when Mr Murdoch was already in the field with four channels and the possibility that a further six English language channels provided by the Maxwell/WH Smith consortium would join them on Astra?

Certainly SES, with paid-up capital of \$116m, and shareholders which include Luxembourg financial institutions and Thames Television, one of the largest British ITV companies, is now confident enough about the future to begin preparations for ordering a second satellite.

If the group were to go to Eutelsat, it would leave a large hole in Astra's programme plans and relieve some of the pressure on SES.



Mr Rupert Murdoch announces the three new channels. From left: Dr Pierre Moyen (Director General, SES); Mr Murdoch; Mr Alan Sugar.

These will be funded entirely by advertising. It is far from clear how attractive the programmes can be.

Sky television will also have to build its audience very quickly if it is going to attract advertisers although they will welcome the prospect of an alternative to the ITV channels.

There is also the danger that with several satellite projects under way planned by both BSB and the Maxwell/WH Smith group, plan to use D-MAC rather than PAL — the public may wait a while for the dust to settle before going out to buy satellite receiver equipment. Some see parallels with the video recorder market and the battle between these rival standards until VHS emerged victorious.

Mr Marcus Bicknell, com-

mercial director of SES, believes that the decision to offer free channels using PAL and subscription channels using D-MAC need not be a problem and might ultimately increase the overall size of the market.

The consumer, he hopes, will begin by buying low price equipment to watch the free channels and then trade up later by adding a module to his receiver to be able to view the scrambled channels.

Both Mr Murdoch and Astra have, however, first to hold their breath that Ariane's recent run of successful launches continues and that everything works on the Astra satellite before the satellite revolution in Europe really gets under way.

Raymond Snoddy

HARDWARE Hopes for orders fade

A FEW years ago there were high hopes in the world satellite industry that plans for direct TV broadcasting services would lead to a rash of orders for space hardware. Many of these hopes have, however, faded.

In the early 1980s it had appeared possible that six or so rival direct-broadcast services could have been operating in the US alone by the end of the decade. That figure would have been added to by a similar number of West European services.

Each service, according to projections in the satellite industry, would have been expected to require two, sometimes three or four, spacecraft designed and built for up to \$50m each.

Such a train of events would have led to a stream of orders for the big satellite companies, which comprise mainly the US giants Hughes Aircraft, Ford Aerospace and RCA (the latter now part of General Electric of the US). European companies such as Aerospatiale, British Aerospace and Messerschmitt-Bölkow-Blohm could also have been in a position to win useful orders.

In the event, the forecasts have turned out to be woefully inaccurate. They have under-

estimated the intrinsic similarity of conventional communications craft that transmit telecommunications traffic. The main difference is that they generally send signals at higher power levels so that the signals can be received by relatively small dish aerials a few feet in diameter.

Conventional communications vehicles, in contrast, send radio waves at relatively weak power levels which can be picked up only by big dishes, along the lines of those which British Telecom operates at Goonhilly Down in Cornwall.

Satellites which use a lot of power are normally big and relatively expensive, a factor of the extra thruster fuel and solar panels which they will need to operate.

The more power they broadcast, however, the smaller and more rudimentary will be the receiving equipment which people will need to obtain signals from the spacecraft on Earth.

Thus, for a direct-TV service operator, there is a trade-off between the sophistication of its space hardware and that of the dishes on the ground that viewers of the operator's programmes will need to install.

Very high power satellites, which transmit at 100W-250W per broadcast channel, will require relatively small aerials of perhaps only 2ft in diameter. A service of this type is planned in the US by Florida-based Dominion Video Satellite, one of the few would-be TV satellite operators in the US still in the running.

A report* on the satellite industry published by Lloyd's of London says there are 11 US-based satellite TV ventures which are at the planning stage, although the report reckons very few are likely to go ahead as scheduled.

Dominion, which plans to channel religious TV programmes to an audience mainly of evangelical Christians, hopes to start its broadcasts in late 1989. It has an agreement with General Electric to use a high-power satellite which at one time was to have been used by Comsat, a big US satellite operator, for a TV service.

Comsat abandoned this venture in 1984, leaving the space-craft available for use by Dominion instead. The Florida company hopes that by the end of 1989 up to 500,000 people will have agreed to pay a fee to obtain signals from its satellite.

They will be required to put up a one-off payment of \$175 which will provide them with an unscrambling device to decipher the coded TV traffic from space. The signals will be received with dishes costing about \$475 and made by Radiation Systems, a US electronics company.

Other direct-broadcasting satellites will use less power and will require slightly bigger receiving dishes. In this category are the spacecraft to be used by the Luxembourg Astra service which is due to begin broadcasting later this year. The satellites for this venture are being made by General Electric, while those for another European service due to be started by British Satellite Broadcasting next year, are under construction by Hughes Aircraft.

It seems likely that these two services will be the main commercial TV satellite ventures in Europe by the end of the 1980s. Also due to be launched over this period are several other government-sponsored TV satellites, such as the Olympus' spacecraft being planned by the 13-nation European Space Agency, but the degree to which these will be used for commercial services is unclear.

* World Satellite Survey by Roger Stamford, Lloyd's of London, Lime St, London EC3V 7EA.

Peter Marsh



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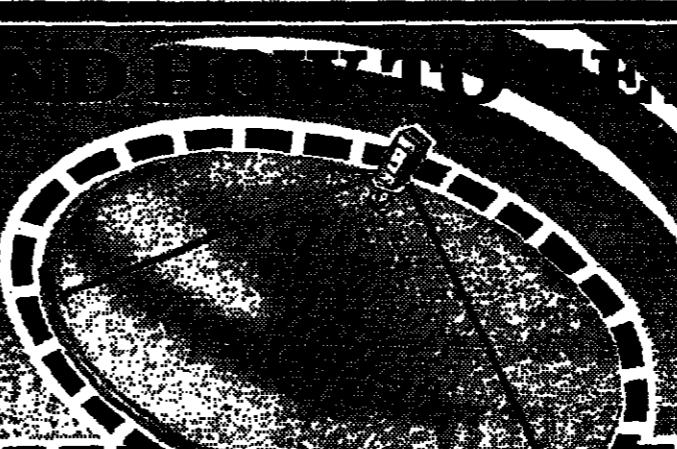
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SATELLITE BROADCASTING 4

EUTELSAT

A second generation

MORE THAN three years ago Mr Andrea Caruso, director general of the European Telecommunications Satellite Organisation (Eutelsat), warned a London conference how inefficient it would be if individual countries in Europe launched their own direct broadcasting (DBS) satellites.

It was too late to do anything about the the first round of DBS launches being planned at the time by West Germany, France, the UK and a group of Scandinavian countries. But surely, Mr Caruso argued, there was no time to lose in planning a second generation of satellites, funded on a multi-national basis, to meet all of Western Europe's DBS needs for the mid-1990s.

Earlier this month Eutelsat, an organisation created in 1977, completed technical and economic studies for the project that has been called Europesat. A conference will be

held in Paris this autumn to see how it can be implemented.

The proposal is to offer all the 26 member countries of Europesat the chance, as the first generation of DBS satellites begins to age, of leasing high power transponders on two 14-channel satellites placed at the same location. A number of overlapping beams would cater for different regional and linguistic groupings, but viewers in each country would all be able to point their 30cm receiving dishes at the same point in the sky.

"The idea that each country should have its own satellite is about to die. The cost is just too great," said Mr Caruso who

concedes, however, that he will need the support of the major European governments if Europesat is ever going to fly.

Papers have been sent out and there are already signs that the West Germans and the French could be interested. To launch such an ambitious European project in 1986-88, Mr Caruso says decisions should be taken by next summer.

The Europesat project, although it exists at the moment on paper only, is a perfect example of how Mr Caruso sees the role of Eutelsat, a organisation composed of 26 post and telecommunications authorities. The launching of satellites, he emphasises,

is a costly, high-risk business best tackled by international, business-based and financed organisations.

"The only credible international satellite systems I know of are those backed by a large number of PTTs [post and telecommunications authorities] which consider a satellite to be a link in the chain of global telecommunications networks — and not an end in itself," warned Mr Caruso in a speech earlier this year.

It was clearly a swipe at Astra, the Luxembourg-based private sector television-based project which threatens to provide real competition to Eutelsat's European satellite monopoly.

With the backing of British Telecom, Eutelsat's largest individual shareholder, Astra's existence was formally recognised on the condition that it offered only television channels and did not market telecommunications services, nor cause material economic damage to Eutelsat. Mr Caruso is not, however, about to hand over Eutelsat's television business, without a fight, to what he regards as an interloper.

Eutelsat has ordered four new medium power satellites at a total price of around \$500m to provide the organisation with extra television and telecommunications capacity from 1990.

"It is now 99 per cent certain that the first two satellites will be used for television," Mr Caruso said. The first 16 channel satellite is now scheduled for launch in March 1990, and the second the following October. Each will be powerful enough to broadcast direct to the home and be picked up on 60-70cm receivers.

Mr Caruso says he has

Raymond Snoddy

already signed options for a total of 41 channels backed by 10 per cent deposits. BT, in addition to marketing up to 11 channels on Astra, has taken an option on eight Eutelsat II channels.

The Eutelsat organisation is now directly marketing its channels to a consortium of British programme providers led by Mr Robert Maxwell, publisher of Mirror Group Newspapers, and WH Smith.

The group plans to scramble the block of six channels, including Fremiere, the early run film channel, and offer them as a package direct to the consumer for between £10-£12 a month.

The consortium is not decided whether to join Mr Rupert Murdoch's planned four channels on Astra, or wait until the launch of the first Eutelsat II satellite. Individual members of the consortium say they have been impressed by the Eutelsat bid.

Mr Caruso is now so convinced by the evidence of demand from the market-place for satellite television that he plans to propose a fifth satellite. The final mix between television and telecommunications would depend on demand nearer the time.

Earlier this month the fifth of Eutelsat's first generation of satellites — Eutelsat 1-F5 — was successfully launched by Ariane, ensuring continuity of service until the next generation of medium power satellites are launched.

When it goes into commercial operation in the autumn, Eutelsat says it will have available a total of 38 multi-purpose low power transponders for distributing television channels to cable networks, but also for telephony, data and radio.

With the arrival of both Astra and Eutelsat's medium power satellites there will probably be just as many direct-to-the-home channels.

Raymond Snoddy

RECEIVING EQUIPMENT

Gearing up for domestic demand

ENTHUSIASTS have been waiting for the satellite receiver market in the UK, and indeed the rest of Western Europe, to take off for a long time. Until now it has stubbornly refused to do so, although companies such as Megastar have, with a careful mixture of supplying to professional as well as domestic users, built a business expected to have a turnover of £5m this year.

Others have not been so lucky; a number of companies which believed the market rush was just around the corner, and invested heavily in stock, have gone out of business. The most recent casualty was Skyscan, one of the better-funded businesses with all the muscle of Mr Michael Green's Carlton Communications behind it. Skyscan, which ordered about 10,000 systems, found that the market was surprisingly not big enough for its 1.2m and 1.8m dishes. The remaining stock has been sold off at heavily discounted prices and the company has ceased trading.

When it goes into commercial operation in the autumn, Eutelsat says it will have available a total of 38 multi-purpose low power transponders for distributing television channels to cable networks, but also for telephony, data and radio.

With the arrival of both Astra and Eutelsat's medium power satellites there will probably be just as many direct-to-the-home channels.

With the advent of the higher power satellite projects such as British Satellite Broadcasting, Astra and Eutelsat II, all the leading consumer electronics companies are gearing up for what they believe will be an explosion of an important new consumer product — the direct-to-the-home (DTH) receiver with a dish aerial any-

thing from 35cm in diameter to 85cm.

The announcement by Amstrad that it will be producing basic receivers at a retail price of £199, which will be able to pick up Mr Rupert Murdoch's planned four channels on Astra, has concentrated many minds and generated some hostility.

Mr Terry Fitt, satellite receiver specialist at Dixons, the retail group which will take around 300,000 of the Amstrad dishes, has no doubts about the potential of the business. "We can see that there will be very heavy volumes

such as Phillips and NEC say, however, the price is more likely to be between £400 and £500, rather than £200.

Mr Michael Jones, of Wolsey Electronics, a subsidiary of the AB Electronic Products Group, argues that the Amstrad cut-price philosophy is wrong because when people buy a satellite system they want to be able to receive every available channel. "We do not believe they will be hoodwinked into buying a low-cost system which can only pick up half the output from one satellite," Mr Jones says.

Not only are the three main satellites in different positions in the sky, but three incompatible standards will probably be involved.

There are growing worries in the consumer electronics industry about the current level of hyperbole and the dangers of confusion in the public mind. Many believe both costs and difficulties are being underestimated. For instance, there has to be a clear line of sight from the receiver to the satellites which are in the south-west and south-east sector of the sky and adjustment factors have to be accurate within fractions of a degree.

British Satellite Broadcasting has set a target retail price of £200 for its receiving equipment using the sophisticated

D-MAC standard and an equally sophisticated conditional access system produced by General Instrument of the US.

Fifteen companies are being considered as the exclusive BSB suppliers for the first three years of the project. They are: Amstrad; Bosch; Finlux; General Instrument; Grundig; Hitachi; NEC; Panasonic; Phillips; Salora; Sony; Tatung; Ferguson; Uniden; and Wolsey. Between three and five of the companies will be selected.

Several of the applicants such as Phillips and NEC say, however, the price is more likely to be between £400 and £500, rather than £200.

Mr Michael Jones, of Wolsey Electronics, a subsidiary of the AB Electronic Products Group, is more optimistic and believes it might be possible to get closer to £250 for the BSB equipment, although the price of all the components is not yet known.

Like many of the other suppliers, Wolsey is looking at a range of equipment — around £200 for a basic PAL receiver, £250-£300 for a middle-range receiver, and between £700 and £800 for a motorised dish that can move between all the satellites and handle the different standards.

The practical difficulties of receiving all the satellite channels are enormous, he believes. Astra and BSB, Mr Jones points out, will be 50 degrees apart in the sky, so a wide clear line of sight would be required without anything like trees or walls in the way.

Mr Peter Grimes, a director and general manager in the UK of Uniden, the Japanese communications company which had a turnover of \$500m last year, emphasises he has no intention of rushing blindly into the market. "But I think that satellite television will be phenomenal — one of the biggest markets in the 1990s across the board," he says.

Mr Graham Lawson, managing director of Megastar, plans to introduce in January a £365 system with a simple motor which will be capable, he says, of handling both Astra and BSB. A more sophisticated version to receive "the lot" will be around £600.

Mr Lawson, who has been in the business since 1981, will, however, be moving cautiously with plans to increase sales to 20,000 a year. "I am not going to risk everything in search of a pot of gold that may or may not be there," said Mr Lawson.

Raymond Snoddy

ADVERTISERS

Backing for ITV's rivals

UP UNTIL recently the advertising community was rather cool and uncommitted about the much-heralded Satellite TV revolution. But Mr Rupert Murdoch's announcement last month that his four Skychannels from the Astra satellite would hit the UK next year forced even the most hard-bitten media buyer to take notice.

For advertisers the important thing about UK satellite TV is that Mr Murdoch, BSB

of course for the break-up of that monopoly. Of course advertisers are pushing for the introduction of an independent fifth terrestrial channel, funded by advertising, and for Channel 4's airtime to be sold separately. But these changes are still on the horizon, whereas the DBS invasion looms near.

So will advertisers put up enough advertising money to support all the new DBS channels? The answer is an unequivocal yes, according to Dick Johnson, marketing services director of Procter and Gamble and chairman of the executive of the Incorporated Society of British Advertisers.

Advertisers are not perturbed by the DBS channels' initial low penetration of homes compared with ITV's current saturation of 20m living rooms. After all, early audiences and revenues for Channel 4 and TV-am were poor but soon picked up.

In a recent study, the Institute of Practitioners in Advertising predicted that, depending on growth, there could be between 5.67m and 6.2m (at current prices) available to fund the new channels by 1990.

This might include a share for Murdoch "in the region of £150m" assuming he was in 5m homes. Meanwhile BSB expects to claim £375m (some of it from subscriptions rather than advertising) by 1990 on a penetration of 8m homes.

Johnson believes that the Murdoch and BSB channels will be able to attract enough advertising money by "leaching the inflation out of the current TV system," as he puts it. He backs the IPA view that ITV's income will not drop in the 1990s but level off as the new channels claim their share of the enlarged overall TV advertising cake.

Currently UK TV has a 32 per cent share of all ad spend. But this share could grow, according to Mike Schlagman, sales director at Super Channel, the Pan-European satellite-to-cable station controlled by Virgin and backed by several ITV companies.

"TV's share could rise to as

much as 40 to 45 per cent, in which case there would be plenty of room for the new channels. Both Murdoch and BSB would be able to survive, not one or the other," he says.

But any new competition will evaporate if ITV starts to deliver the audiences advertisers want at a price they like. Schlagman says: "The new satellite channels will grab a sympathetic vote early on from advertisers — that won't be difficult. But will they be able to hold their revenues after deregulation of the terrestrial system? That will be the real battle."

Martin Lost

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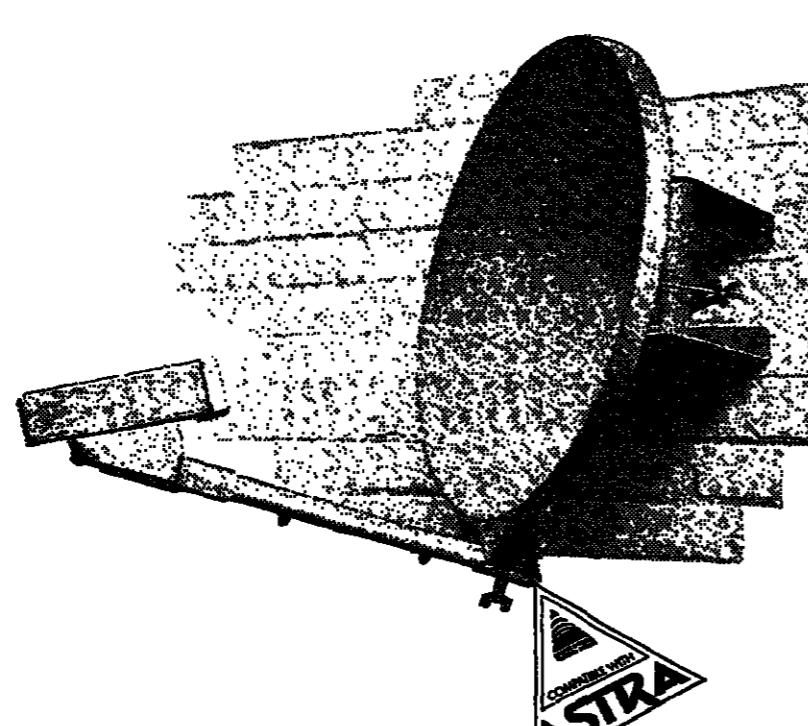
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SATELLITE BROADCASTING 5

SATELLITE television will stand or fall - fly or plummet - on the quality of its programming. That is no mere truism. Indeed, it may be that the British experience will prove quite different from anything so far seen in the rest of the world.

In the US the take-up rates for new transmission technologies, cable and cassette as well as satellite, have been governed to a large extent by the poor quality of signal received by so many viewers from conventional terrestrial systems.

To take an extreme example: people living in the Rockies

have been willing to pay thousands of dollars for big domestic satellite dishes simply in order to receive a recognisable picture from the standard NBC, NBC and CBS network services.

Furthermore, American operators of the new technologies seem to have benefited from irritation among viewers about the intrusive frequency and length of commercials in the US. People have been willing to pay for new services partly because they promised fewer interruptions from advertisers.

In Europe the chief attrac-

British audiences are unlikely to want more of the same

Schedules and information need much improvement

There will be AB trend-setters who will buy satellite dishes regardless of the programmes

cans, they have certainly not been starved of it. BBC and ITV have long provided a plethora of game shows, soap operas, sitcoms and light drama.

The way in which videocassette recorders are used in the UK and the US also offers a clue to possible differences in reactions to satellite services.

Whereas Americans bought VCRs primarily to play rented cassettes, in other words, as a way of watching less network

As with items such as per-

assertion that satellite services in Britain will depend for their success on the quality of the programmes.

Operators of DBS channels will have to persuade viewers, who are already saying that there is more television than one person can watch, that they should spend a considerable chunk of disposable income on increasing the quantity of television entering their homes.

The public will want to know exactly what programmes they can expect from the new service before they will even consider forking out £199. And the schedules will surely have to improve dramatically compared to what is currently on offer before most people will risk that new outlay.

Takes an evening at random earlier this month: Thursday, July 7. Being near the start of the summer, it was not one of the most impressive evenings for terrestrial television; there were numerous repeats. Here was BBC1's evening schedule:

7.00 Top Of The Pops

7.30 EastEnders

8.30 Bread (sitcom quiz)

9.00 Nine O'Clock News

9.30 Mercer Play season:

Let's Murder Vivaldi (1963)

10.35 Esther Interviews

(Esther Rantzen and Mary Tyler Moore)

1.05 Speaking To Each Other (celebration of BBC regional broadcasting).

Against that, Rupert Murdoch's Sky Channel was offering this:

6.30 The Incredible Hulk

7.30 Canon Fusion TV (fashion news and reports)

2.00 Wrestling

2.58 Headline News

9.00 Monroe Indy/C.A.R.T.

World Series 88

9.58 Headline News

10.00 The Great Video Race

11.00 Masters Of Rock.

ITV programmes that night included the game show *Lingo*, *This Week*, and a repeat of the police series *The Bill*. Channel 4 offered the second episode of the European co-production drama *Fathers And Sons* and a programme interview with Viv Richards. On the Super Channel satellite service meanwhile you could have:

7.00 Baseball

8.00 Basketball

9.00 News

9.35 Golf

10.40 Gaelic Football

11.40 Music Box (rock and pop).

It is difficult to believe that a great many British viewers would be willing to spend much money to gain access to satellite schedules of that sort, given the programmes already available in their homes.

Some, presumably, would pay the price for a service which included a news channel (promised in the Murdoch package) and in particular a film channel (this has been promised by several potential satellite operators, including Mr Murdoch).

Even here, however, it is instructive to look carefully at what is being provided already. On Thursday, July 7 Channel 4 offered the 1946 Ealing film *Hue And Cry* at 5.00, BBC2 screened Abbott & Costello in *Here Come The Co-Eds* at 6.00, and Channel 4 showed *The Beads Of One Rosary* (Polish, 1980) at 12.20.

On the same day the existing satellite film channel Premiere provided this schedule:

6.15 Phase IV

7.35 Crime Story (presumably the "special" launching a new American TV series)

9.15 Melonie

11.30 Spun Of The Sticks

12.30 Up From The Depths.

And the list for Filmnet, the other existing satellite film channel, over the same period of the evening was:

6.00 Fire With Fire

6.00 The Amateurs (1982)

10.00 Age Of Consent (1969)

12.00 Runaway Train (1985).

In many cases, it is impossible to discover very much about these "films" since even *Satellite TV Europe*, the monthly listings magazine which publishes satellite schedules, prints merely the title and certificate and no other information.

Quite a number appear to have been produced specially for the satellite/cable/cassette market, and are not (yet) listed in any standard film encyclopaedia.

But even without any background information, it seems likely that a radical improvement to such schedules would be needed before any significant proportion of British viewers would consider spending three times the licence fee to acquire four - or even 10 - more channels.

Programme quality will be crucial.

Christopher Dunkey

DATA

Swift means of delivery

HIDDEN FROM the glare of publicity, surrounding the imminent arrival of a multitude of satellite TV stations is the potential for using the unused parts of the TV bandwidth as a mass distributor for data.

Until recently, such a sensible usage of spare transmission capacity was illegal in the UK, except for teletext services. In 1984 there was a change in regulations which permitted the BBC and IBA to run encoded data over their terrestrial TV networks, thus providing a vehicle for subscription data services.

The BBC provides its own Datacast service but the IBA decided to license a third party to do it for them and chose a joint venture company set up with telecommunications audio provider and cellular retailer, Air Call, as majority partner with Oracle.

Data broadcasting services solve a data delivery problem

Successful vendors of new services have had to learn the skills of marketing.

not easily provided by telephone company circuits which are point to point in nature, rather than the point to multi-point nature of broadcasting. Reuters and the International Stock Exchange are two which will grab a slice of Air Call's bandwidth respectively, followed by betting shop chains, Lottomania and Coral Racing. More recently, the Halifax Building Society is to distribute information and advertising in the form of high resolution NAPLPS graphics to customers in its retail outlets.

The advantages offered to information publishers in using data broadcast services rather than telephone lines are that where the same information is to be sent to a large number of recipients, data broadcasting is not only much cheaper, but the information arrives virtually instantaneously and simultaneously to receivers in all parts of the country and, for satellites, all parts of Europe.

Additionally subscribers to these services need not do anything difficult like log on to some remote database to receive the information, but can happily wait until their terminal is given, instantly if required, that vital bit of information they are waiting for.

All users need is a suitable aerial, regular TV or dish and suitable decoder feeding a PC or alternative processor, storage or display device. New users can be booked up very quickly. The information supplied is normally addressed and scrambled. This allows a message to be received by one person only, or any number.

Recently the Department of Trade and Industry has announced that it will license six special satellite service operators and expects to announce the lucky ones late this year. Many, no doubt, will apply for whole transponders for video-conferencing and others will request access to the unused parts of the TV transponders. The best deals will largely be determined by two factors: the price the licensee can negotiate for satellite capacity, and the price of the user's receiving stations, which is determined by the transponder power in the satellite and the purpose for which it is used.

In large network data broadcasting systems the largest cost element will be the user's receiving station, and in this regard the dishes and decoders distributed for DBS must have the cost edge and will be very suitable for services requiring up to 2.5 kilobits per second. Of course these decoders will also receive full field data, that is full TV bandwidth, which capacity, network or transponder owners may well wish to sell to data broadcasters.

What is this hitherto unused capacity worth to the broadcaster? This is going to be a highly competitive field, with six licensed satellite operators linking up from the UK, plus BT and Mercury, plus operators outside the UK from France, Germany, Italy and

new telecomm services to learn the skills of marketing.

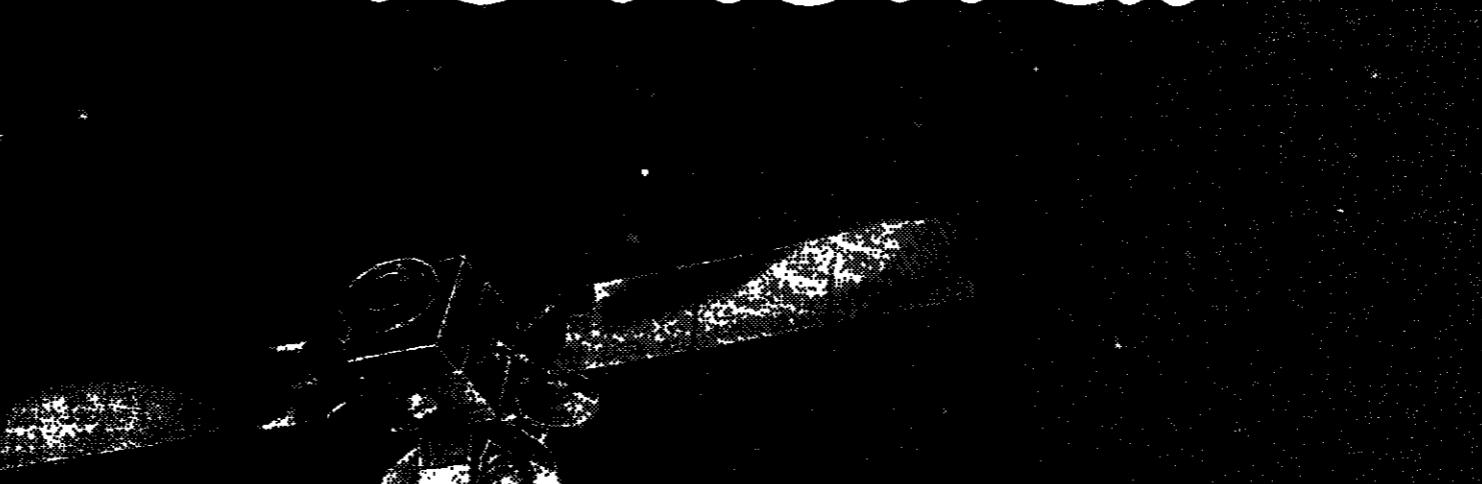
The present operators in the field have found that customers need solutions and network management rather than bandwidth. The packaged solutions from Bishopsgate and IGG include special terminals and the very important special software, as well as the bandwidth in a one-stop shopping service, be it in financial, retail or educational sectors, though not yet domestic.

A big unanswered question hangs over the domestic market, remembering, of course, that DBS is designed for the home. Will News International, for example, expand the printing of newspapers to the Amstrad home printer attached to an Amstrad PC and Amstrad PAL receiver? Teletext, after all, is a newspaper of the air. Certainly, business, or even sports news could be distributed in this way.

Home shopping must be one area with the greatest domestic potential. Chris Curry's Kay-line home shopping terminal, to be given away to two million households by 1992, will not replace the Kay's beautifully designed home shopping catalogue. Colour still frames individually delivered via satellite to domestic receivers, is an alternative. Tandata has already demonstrated the technology in Scandinavia. If the 2 million households had rewritable CD disk players, Kay's would really have an alternative to the catalogue.

Chris Weeks

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SATELLITE BROADCASTING 6

Lessons can be drawn from the US experience

Fragmentation as viewing levels fail to rise

IN 1986 the average American will watch about three and a half hours of television daily, much the same as his British counterpart. His viewing will rise, as in Britain, to a peak of four hours daily in the winter and fall away to three in the summer. This indicates that the arrival of satellite television, and the explosion in the number of channels and programmes available, is unlikely to lead to big increases in viewing levels in Britain.

But there is the similarity ends. British homes now have a choice of four channels; American homes get, on average, 21 channels, and one in three get 30 or more. Hence in the US the market is totally fragmented by channels and viewing patterns. Half of all American homes subscribe to cable; and two out of three of those also pay extra to receive a film channel devoid of advertising.

This makes the advertisers' buying of TV airtime much more difficult than in Britain: there are many more opportunities to buy television airtime, but selecting the right package of channels and programmes to reach target audiences effectively and economically demands a very different approach to that practised in the current quasi-monopolistic British market.

Negotiation becomes cut-throat; audience delivery guarantees are demanded and obtained; and buying is programme-based rather than time-based. If peak time is divided between 30-plus channels, then buyers must estimate what a previewed programme will deliver across time, not what a given timeslot will provide. Hence television negotiators need to become experts at predicting programme audiences; to be equally expert at evaluating TV programming, at negotiation and at using TV audience numbers.

This constant competitive search for fragmented audiences, and the total financial dependence in the US of television on advertising revenues and private household subscriptions, has led to television being accepted largely as entertainment – and to airtime

being bought and sold as a commodity.

The three main networks, which still hold a two-thirds share of peak-time viewing across all American households, offer in peak-time an almost continuous diet of game shows, sitcoms, TV drama, and movies.

Competition in Europe has produced a similar trend: a recent study showed that the peak-time entertainment content of state broadcasters across Europe had increased from 46 per cent in 1986 to 56 per cent in 1987; a rise of well over 20 per cent. This is largely a result of increased competition from new private channels, which offer peak programming 80 per cent dedicated to entertainment.

The search for audiences has led to television being accepted as entertainment and to airtime being bought and sold as a commodity

In Britain DBS penetration and audience share will similarly be the critical factors that govern the advertising revenues of the new channels. In the US, the share of audience in all cable homes of all cable channels is about 33 per cent, while the film and general entertainment channels; in Britain in cabled homes the share of cable has consistently been at about the same level, again led by film channels like Premiere and entertainment channels like Sky and Super Channel.

In America it has taken 20 years for penetration to rise from under 10 per cent of homes passed by cable to the present level of 66 per cent. In Britain, in the new-build broad-band cable towns, sub-

less on the time of day. There will be a move towards the buying of programme packages with guaranteed audience delivery.

At the same time programming will become more entertainment-led; and American practices like syndication and programme bartering will emerge, with more advertiser influence being exercised on programming than at present. The new DBS channels will erode the existing BBC and ITV audience, probably reaching a 30 per cent share in DBS.

This erosion will be particularly marked in young family homes. They will be the first to buy dishes and will be most prone to viewing the entertainment programming coming from the new satellite channels. As the under 35s already watch far less television than the over 35s, and as it is this group which will first take DBS, the battles will be waged between channels, programmes and advertisers to reach the younger, more affluent "kids and adults" families of Britain.

Across Europe the same pattern will emerge. In some countries, like Belgium and Holland, the distribution of the new satellite channels may well be mainly through cable, and promotion, and to good quality entertainment programming – it will reach 600,000 homes by the end of Year One, 2.6m by the end of Year Three and close to 5m (24 per cent of the total) by the end of Year Five. This could, at today's prices, give it advertising revenues of some \$15bn by 1995, a 7.5 per cent share of a television advertising market worth by then \$2bn at constant prices. But this is dependent on many variables, and the reality could be very different.

The best estimate for DBS is that – subject to dishes and decoders being priced at under £250, to effective marketing and promotion, and to good quality entertainment programming – it will reach 600,000 homes by the end of Year One, 2.6m by the end of Year Three and close to 5m (24 per cent of the total) by the end of Year Five. This could, at today's prices, give it advertising revenues of some \$15bn by 1995, a 7.5 per cent share of a television advertising market worth by then \$2bn at constant prices. But this is dependent on many variables, and the reality could be very different.

The main beneficiaries of this will be the cable channels and the syndicators, independent producers who provide programmes to the local stations with the advertising fully or partly pre-sold. But cable did not begin to take a significant share of American television advertising revenue until 1986 when penetration came close to the magic 50 per cent level.

John Clemens

scription levels now run at close to 20 per cent of homes passed after just three or four years. This provides a base for some optimism for the take-up of DBS.

The best estimate for DBS is that – subject to dishes and decoders being priced at under £250, to effective marketing and promotion, and to good quality entertainment programming – it will reach 600,000 homes by the end of Year One, 2.6m by the end of Year Three and close to 5m (24 per cent of the total) by the end of Year Five. This could, at today's prices, give it advertising revenues of some \$15bn by 1995, a 7.5 per cent share of a television advertising market worth by then \$2bn at constant prices. But this is dependent on many variables, and the reality could be very different.

What then are the implications from the US for the changing British scene? The first is that total viewing levels will rise very little, if at all; hence, more channels and programmes will divide up the total audience cake. With this increased audience fragmentation, more television advertising and more subscription television. It will be an exciting decade.

John Clemens

The important changes over the next decade will not, however, be how television is distributed but what programming the channels provide, how the channels are financed and how the European public responds to more choice, more entertainment, more television advertising and more subscription television. It will be an exciting decade.

The new channel plans to adapt the British Open University concept

SCANDINAVIA

Unexpected consequences

IN AN Aerospatiale laboratory in Cannes, France, sits a fully-paid-for satellite which nobody wants. It is Tele-X – representing some £170m contributed by the taxpayers of Sweden, Norway and Finland.

Originally conceived as an industrial development project by the three governments, Sweden put up 52 per cent of the cost, Norway and Finland contributing 15 per cent and 3 per cent respectively. The main contractor is Aerospatiale of France, but Saab and Ericsson of Sweden, Elektrobit and Kongsberg of Norway, and the Finnish firms of Nokia and Vaimat, have sub-contracts.

The Tele-X satellite is virtually identical in design to the unfortunate TV-Sat bird, the recalcitrant solar wings of which put an end to West German direct broadcasting hopes.

Intended for Sweden's WRAC orbital slot of 5 degrees east by an Ariane launch, it carries three full-power DBS television transponders, plus transponders for data communications project.

The three television transponders were offered to the state broadcasting organisations of the three Nordic countries, but these, already starved of cash, and being offered no additional funds to supply the programmes, eventually declined the offer. A search for other acceptable users of the television channels has so far yielded no takers.

Efforts to find customers for

Tele-X's data-carrying capacity in Cannes, France, sit a fully-paid-for satellite which nobody wants. It is Tele-X – representing some £170m contributed by the taxpayers of Sweden, Norway and Finland.

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SECTION III FINANCIAL TIMES SURVEY



The Isle of Man economy is booming. Unemployment is under 4 per cent.

There is a rash of new office building for a growing financial sector. The island has also just passed an important test of its regulation of this industry. Ian Hamilton Fazey reports.

A boost in stature

THE ISLE of Man has been put to a severe test in the last 12 months, but passed it with no small degree of satisfaction. Mr Peter Clowes, founder of the defunct Barlow Clowes investment group, twice tried to be nominated to any bank on the island, but failed.

The island's supervisory machinery — through which the growth and operation of the rapidly developing financial sector is being controlled — worked.

Confidentiality surrounds all applications for banking licences, but this is a case where the island's government has not minded the leak. It is good news for the blue-chip bankers from around the world it wants on the island.

Not only has it demonstrated resolve, but it speaks volumes for the financial supervisors' intelligence network, for they were wary enough to say no at a time when the Department of Trade and Industry in the UK was about to re-license Mr Clowes' operations on the mainland.

There is now a very obvious schadenfreude on the island, if the discomfit of the DTI in Britain and of the authorities in Gibraltar — where Mr Clowes had substantial offshore operations.

The Manx companies regis-



Douglas harbour, Isle of Man

try has been combed and the only strong connection found has been his involvement in Corporate Aviation, a company which markets executive jets and helicopters. Mr Clowes was a co-director with Mr Peter Henwood and Mr Andrew Sebastian, his known associates on the island.

Mr Henwood and Mr Sebastian have since been trying to distance themselves from Mr Clowes. However, he also tried to buy their own main, privately-owned business, the International Trust Corporation of Ramsey.

Negotiations were close to completion when the Stock Market crash of last October wiped out the value of shares in the publicly-quoted James Ferguson Holdings, the Barlow Clowes parent, with which paper Mr Clowes intended to pay.

Mr Clowes could have done what he liked with the corporation had he managed to buy it, so this near squeak has raised questions about the regulation of private trusts and, indeed, other Manx-registered companies.

Tighter control of the companies register was already on its way, announced by the island's attorney-general last year — but is stalled by an argument about whether

it is interesting that this debate is even going on at all, for it demonstrates how far the Isle of Man has come in the six years since it woke up to the fact that it needed the sort of supervisory machinery that the world's financial industry could believe in.

This was the result of the collapse of the privately-owned Savings and Investment Bank with £42m of depositors' money

in 1982.

The loose ends of the collapse are being tidied up now, with the trial of some of the principals involved on charges connected with the running of the bank and a forthcoming civil action by some depositors against the government, alleging negligence in supervision.

Things are very different now. Mr Miles Walker, chief minister of Tynwald, the island's ancient parliament, says: "As far as we can see we are preventive and we are certainly telling people that there is a lump of business about that we don't have to take and don't want."

"We are trying very hard to raise our image. The response to that worldwide has been very good. People are recognising the Isle of Man now as a centre of some stature and importance in financial services and not as some grotty little place in the Irish Sea."

How far the message has got home became very clear on Tynwald Day, when the

island's new laws are proclaimed each year in an age-old ceremony. Mr John Abbott, treasury attaché at the US Embassy in London, attended and was entertained afterwards at a lunch hosted by Mr David Cannan, the island's finance minister to mark what was coincidentally American Independence Day.

Mr Abbott said that financial crime and the laundering of drug money was a continuing worry to the US government. He added: "It is heartening to come here and learn what steps have been taken. Actions and words are increasingly convincing, and firms are voting with their feet to come and do business here."

The influx has led to a developing economic boom that has intensified considerably in the last year. Unemployment is now below 4 per cent. For the first time ever, substantial numbers of ordinary financial sector workers on the over-crowded islands of Jersey and Guernsey are applying for jobs

on the Isle of Man, for so long the Cinderella of European offshore centres.

Mr David Lever, who went to the island 17 years ago to open a branch of Singer and Friedlander, the London merchant bank, says: "We are the only low tax area in this time zone with the room to develop and the ability to keep costs relatively low."

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The speed of change has surprised most of us and caused some problems, particularly in staffing, house prices and office space. Rents are rising. Head hunting is just beginning. Young people from the Channel Islands are coming here because they cannot afford to buy property there."

Mr Cannan says: "Quality attracts quality and more and more people are coming here. People know that we have strong regulatory machinery and that we are not interested in the grubby end of the market."

Despite near full employment, however, there are

strains. Tynwald Day had a blacker side, for the letters "FSFO" were burned with weedkiller into the grass at the open-air site where the ceremony takes place. The letters had to be painted green to hide the damage, but the point had been made.

"FSFO" stands for "Financial Sector F... Off" and there has been a spate of daubings in some parts of the island. An extreme minority of Manx traditionalists are believed responsible.

The protest is about the ending of the island's formerly sleepy, little-regulated way of life, about an influx of highly-paid executives in the financial industry, about a dangerous, developing gap between haves and have-nots, despite full employment.

It is also about a hike in house prices because of shortage, which makes it impossible for local, lower-paid first-time buyers to get on the property ladder.

These are the problems of sudden, spurring growth. The social infrastructure of everyday life takes time to catch up with rapid change and so tension and conflict become almost inevitable.

This showed tellingly in a widespread strike over the issue of local employment

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Accountancy: sea change in attitudes
Legal services: local gap begins to close
Financial services: a wider spread with room to grow
Economy and Society: the quest for quality
Property: planners hold boom in check
Tourism: a move up market
Fish Farming: taming the turbot
Transport: Government seeks more say
Labour relations: goodwill no longer enough

terms earlier this year which cut off the island for a short time. The cause had been building in several minor disputes in many places, but it highlighted the fact that the island had no industrial relations legislation, no employment protection laws, and no structure of rights and responsibilities that either side of industry could fall back on.

They were not needed when goodwill and a small friendly community were enough, but they are needed now. Urgent steps have been taken this summer to draft appropriate laws. At the same time, the government has spelled out its social philosophy in a seminal document entitled "The Development of Prosperous and Caring Society".

The government has not over-reacted to the FSFO protest. It has kept emphasising to the vast majority that without the financial sector, economic growth would be too slow to pay for the falling levels of already low taxes delivered in the last two budgets.

Mr Walker says: "We are not going to twiddle our thumbs. We know we have to develop the economy in such a way as to produce a greater income per head for ordinary people."

Mr Cannan says that housing will be a priority but that social policy can only be implemented through a strong economy and an active private sector chasing good market opportunities.

"What we have here is not a boom. This is established, well-founded growth. We are going to manage it to make it the norm. It may level out, but it is not going to fall back."

"We have been getting people back to work and paid proper wages. We have almost full employment and have been getting the economy into surplus and balance. It is not a boom, but how things should be and are going to remain," he says.

Isle of Man



Raising new standards on the Isle of Man

Huge expenditure and massive reorganisation represent the Palace Group's re-investment in the historic partnership between the Manx people and their most important innovator in the fields of leisure and entertainment — the island's economic life and blood.

RAISING NEW STANDARDS FOR BUSINESS

More than any other in the industry, the Palace Group is promoting the unique attractions of the Isle of Man to the international business community. Conference facilities and new amenities, such as the Palace Hotel's recently completed Shearwater Suite, are being created as the base for a more aggressive marketing plan that aims to increase the variety of "packages" that are available for business entertaining.

The business entertaining market world-wide is served by the Group's own Palace Promotions company that's devoted to tailor-made events linked to celebrity occasions.

The Group's resources on the Isle of Man extend from the luxurious accommodation and international atmosphere of The Palace Hotel and its famous Casino to the superb sporting facilities offered at The Castletown Golf Links Hotel — a venue that has always been attractive to the visitor with business in mind. Castletown is only minutes from Ronaldsway airport and in addition to its world-famous golf links has recently augmented its lavish conference facilities and first-class restaurant with the addition of extra leisure facilities, including sauna, steam room and solarium.

No greater choice or quality of venues and entertainments is offered at any single location in Europe.

RAISING NEW STANDARDS FOR PLEASURE

More of the tourist pounds find their way into the island's economy through Palace Group enterprises, too.

Not content with boasting "Britain's best disco", the Palace Lido boosts the island's economy by operating one of the busiest venues for holidaymakers on the Island's busiest thoroughfare.

Visitors with more sophisticated tastes also find they have a wider choice now that the Group's new nightclub, Toff's has opened and stolen the limelight with new standards for late, late entertaining.



RING PALACE GROUP INFORMATION LINE
What's On? Where to Stay? What's New? What's Happening on the Isle of Man? — the latest news on 0024 80800 — or 16600 if you phone on-island.

PALACE GROUP
Send enquiries to:
Gary Caswell,
Palace Group,
Central Promenade,
Douglas, Isle of Man.
Tel: (0624) 24464
Fax: (0624) 72348

OUR STANDARDS ARE HIGHER

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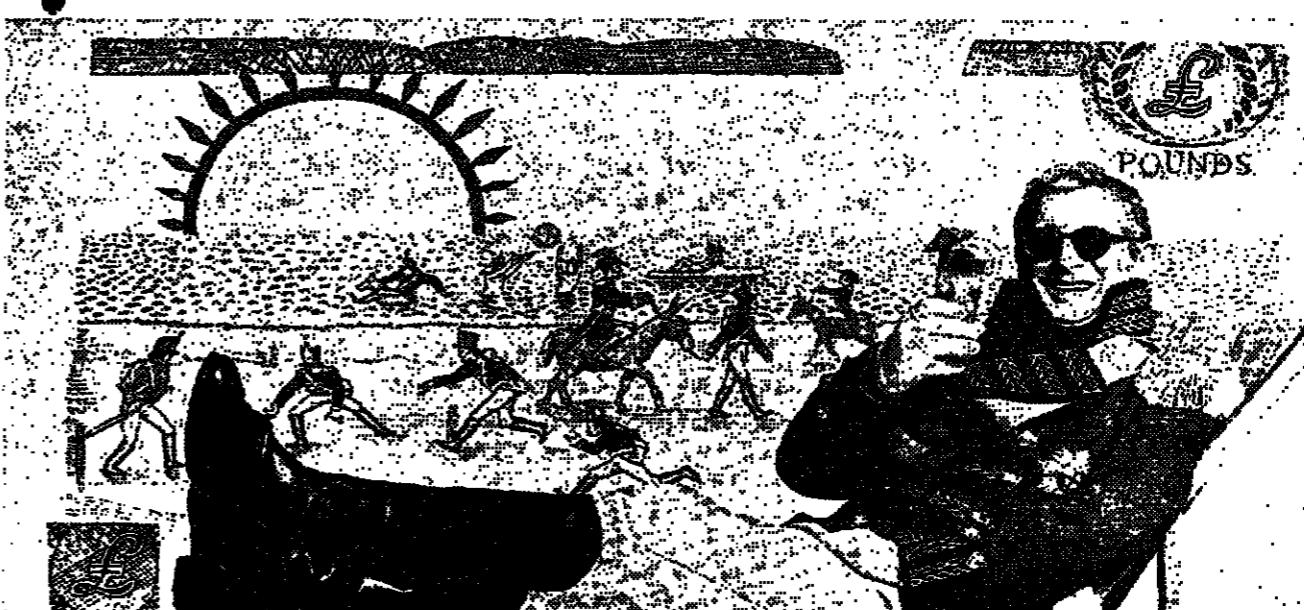
Barclays Finance Company in the Isle of Man provides a specialist service to personal and business customers with capital sums to invest.

And perhaps the easiest and safest way to take advantage of our position is through our range of deposit accounts.

Our Fixed Term Deposits, for example, offer anyone with £5,000 (\$12,500) or more to invest a high fixed rate of interest in sterling, dollars, Deutschmarks and Japanese yen.

Our Call Accounts offer easy access on deposits over £5,000. And what's more, whichever account you choose you'll still earn a good rate of interest paid gross.

GIVE YOUR MONEY A WELL EARNED BREAK
SEND IT TO THE ISLE OF MAN.



For more information fill in the coupon below and return to Howard Pilley, Dept. FT07, Barclays Finance Company (Isle of Man) Limited, PO Box 9, Barclays House, Victoria Street, Douglas, Isle of Man. Or call him on (0624) 2551. Then see how much better your money will look if you give it a break.

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Signature _____

Date _____



Barclays Finance Company (Isle of Man) Limited has its principal place of business in Douglas, Isle of Man.

Deposits made with offices of Barclays Finance Company (Isle of Man) Limited, in the Isle of Man, are not covered by the Deposit Protection Scheme under the Banking Act 1987.

The paid-up capital and reserves of Barclays Finance Company (Isle of Man) Limited exceed £15m. Latest audited accounts available on request from the Manager, Mr Howard Pilley.

ISLE OF MAN FINANCE COMPANY

ISLE OF MAN 2

ACCOUNTANCY

Sea change in attitudes

IN THE leafy residential enclave of Belmont Hill on the outskirts of Douglas is an elegant Victorian house too big for sale today as a family home. It houses a new venture by Pannell Kerr Foster (PKF) which is one of the most significant developments in the Isle of Man's professional services since the early 1980s.

It was then that Peat Marwick, the accountancy firm, set up a full office with six staff. Touche Ross, Coopers and Lybrand, and Ernst and Whinney were to follow. They shook up sleepy professional infrastructure long dominated by PKF by introducing competition into a market that was then in the doldrums.

A combination of economic recovery, the growth of the financial sector, and the current boom has given every big slice of a growing cake in the last three years, but what is happening on Belmont Hill encapsulates a sea change in markets and attitudes towards professional services on the island.

It also shows how PKF has managed to adjust to competition and keep its local market leadership in terms of size and range of services. The house is now called the Eaglehurst Business Centre. PKF has moved several specialised services into it and created others, setting them all up as incorporated profit centres in their own right.

This has eased pressure on space in the firm's headquarters building in Athol Street, where the core accountancy services remain, but the move is about much more than that.

It confirms the shift from general practice to increasing specialisation and segmentation of professional services on the Isle of Man. This in turn underlines the growing diversity - and, indeed, the very growth - of the island's financial industry.

Eaglehurst houses PKF's offshore businesses. These cover company administration - it is the registered office of 450 companies - captive insurance company management and shipping management. It is also the base for the firm's business services, which include start-up and management consultancy, as well as computer selection advice.

Another subsidiary runs seminars at the centre and var-



Mr Peter Pell-Hiley: "benefited from a flight to quality"

ious rooms can be hired by others for seminars, presentations or board meetings.

Mr Ian Radford, one of the partners in charge, says: "The idea is to provide services not traditionally available from practising chartered accountants, and to extend our traditional practice into various types of consultancy."

In other words, the multi-practice firm is now evident on the Isle of Man. However, PKF - the forerunner of which came to the island to liquidate the collapsed Dumbell Bank more than 30 years ago - had to act decisively, or it might well have been embarrassed by some of its newer arrivals, most notably Peats.

There has also been an effect on training which is likely to be important and beneficial to the island. Touche Ross will take on yet more trainee accountants next spring. Peats recruits regularly, as do PKF and the other larger practices. This is very different from the past, when PKF bore the brunt of training most of the island's future accountants.

PKF gives preference to applications from native islanders but admits, as do the others, that demand is going to exceed supply for the foreseeable future. The government would prefer that all trainee accountants were locals, but recognises it cannot be, given the rate at which the demand for professional services is growing.

Recruitment from elsewhere in the UK is therefore unavoidable, which means that there

The growth is not just because Peats took over the local accountancy firm of J G Faragher in 1986, for each practice had only 15 staff then. Organic growth has seen a doubling and more in total numbers employed.

Mr David Burton at Touche Ross tells a similar story. Touche started in collaboration with a small local firm but decided to develop under its own steam alone about three years ago. When it adds a training intake of four in September it will pass the 30 mark in terms of total staff and is moving to new offices to accommodate them.

"All of our growth has been organic," Mr Burton says. About half is traditional audit business, the rest a mixture of tax planning and offshore activity. He recently toured Touche Ross offices in the Far East and Australia and was pleased to find the extent to which people were aware of the Isle of Man compared with only a few years ago.

Mr Burton has run seminars on economic, legal and taxation issues for some time, importing Touche experts or consultants retained by them to lecture. The firm also runs an annual budget briefing, starting within a few minutes of the Finance Minister sitting down. Things like this helped create an expectation of service and depth of back-up which people on the island were not used to previously.

There has also been an effect on training which is likely to be important and beneficial to the island. Touche Ross will take on yet more trainee accountants next spring. Peats recruits regularly, as do PKF and the other larger practices. This is very different from the past, when PKF bore the brunt of training most of the island's future accountants.

PKF gives preference to applications from native islanders but admits, as do the others, that demand is going to exceed supply for the foreseeable future. The government would prefer that all trainee accountants were locals, but recognises it cannot be, given the rate at which the demand for professional services is growing.

Recruitment from elsewhere in the UK is therefore unavoidable, which means that there

are opportunities for likely graduates who want to get into an offshore environment early.

So is the market big enough for more of the top twenty accountancy firms to move in? That may depend on the extent to which fast, sustained growth continues. One thing is certain: anyone wanting to move in cannot do so half-heartedly or a willingness to commit big resources to back-up.

Mr Pell-Hiley says: "Representation alone is not the way ahead for a big company now. Yet for all the growth, the island is too small to support a big indigenous market in accountancy services. You have got to have resources elsewhere, which means being part of a bigger group."

This signifies the degree to which the great gap in the Isle of Man's professional services has closed under the market pressures of recent years. The burgeoning financial sector used to make no bones about its view of local legal services lagging massively in terms of development and speed of response.

The small Manx Bar was overburdened with work but the outside perception was of a closed shop fighting to keep it all to itself. Having too few members also led to conflicts of interest.

The members - who are called advocates and comprise the traditional English division between solicitors and barristers - were mainly general practitioners in an age where there was a growing need for specialists, particularly in international finance.

There was pressure on the government to be more welcoming to specialist lawyers from other jurisdictions. Theoretically, they could set up anyway, but were restricted from operating in Manx courts. Moreover, some were put off by worries about market size, the welcome they would get and

Ian Hamilton Fazey

NEW DEVELOPMENTS on Athol Street in Douglas are of great significance to the Isle of Man's professional services.

T W Cain and Sons, one of the island's oldest and most respected law firms, has opened a new office a few doors away from its long-established headquarters.

This is not just an expansion, for the new offices house the firm's specialised commercial law department - something unheard-of in Manx legal circles.

Moreover, Cain's is offering a guarantee for clients using its commercial services - in most cases it promises to deliver an answer to a legal query within 24 hours.

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lack of regulation - anyone could put up a brass plate calling themselves a "solicitor."

Regulation has meant that only people properly qualified in another, recognised jurisdiction can operate now. Those licensed by the Attorney General are allowed in for their specialised skills but are not allowed to appear in Manx courts, convey property or take on probate work.

This has protected the traditional bread-and-butter markets of the Manx Bar but has not insulated its members from specialised competition. The arrival last year of Travers

Smith Brathwaite, one of London's leading firms of commercial solicitors, was therefore an important development.

Cain's decision to segment its markets and go for specialisation has been seen generally as not only due to a growing market need but also as a response to such competition.

The small Manx Bar was overburdened with work but the outside perception was of a closed shop fighting to keep it all to itself. Having too few members also led to conflicts of interest.

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another leading firm, is following a similar route. Other Manx advocates have also developed the skills needed by the international financial sector. The improvement over previous years is admitted by

by individuals wishing to avoid the right, possibly outdated inheritance laws of some countries. "This sort of trust is increasingly in demand among international citizens" - individuals successful in industry or commerce internationally who are not firmly based in any one country," he says.

So has Travers Smith Brathwaite wasted its time? Mr Robert Quayle, the former clerk to Tynwald head-bishop, says: "Not at all. We are quietly satisfied and well ahead of forecast in terms of profitability."

"The island needs qualities of excellence in its professional services and our purpose is to only those they can carry out."

Travers Smith Brathwaite foresees a growth in mergers and acquisitions as an important source of future work. It acts already for the acquisitive Cresta group, which is based on the island. "The Isle of Man is an attractive place for international entrepreneurs," Mr Quayle says.

Its other main area is corporate finance. Mr Quayle has also been prospecting for work in the Far East and Australia. The firm's first year has led to it feeding work to Manx advocates but it has not yet benefited from work flowing the other way.

With the market increasing in size, however, Mr Quayle and Mr Dixon are not unduly concerned by this.

Mr Cullin too has more than enough work to divert his attention from what the newly-arrived competition is up to. "We have been so busy that I haven't had time to think about how busy I expect to be," he says amiably.

Nevertheless, a steady resistance is apparent behind his charm and gentlemanly politeness. He wishes lawyers from other jurisdictions had not been licensed in the way they have.

"We have gone some way down the learning curve and can do it all from here. We don't see a lot of work where we need to ask questions of English law. The complaints that were alleged to exist cannot be made now. English solicitors should take the Manx law exam. They are practising Manx law and there are idiosyncrasies."

Ian Hamilton Fazey

LEGAL SERVICES

Local gap begins to close

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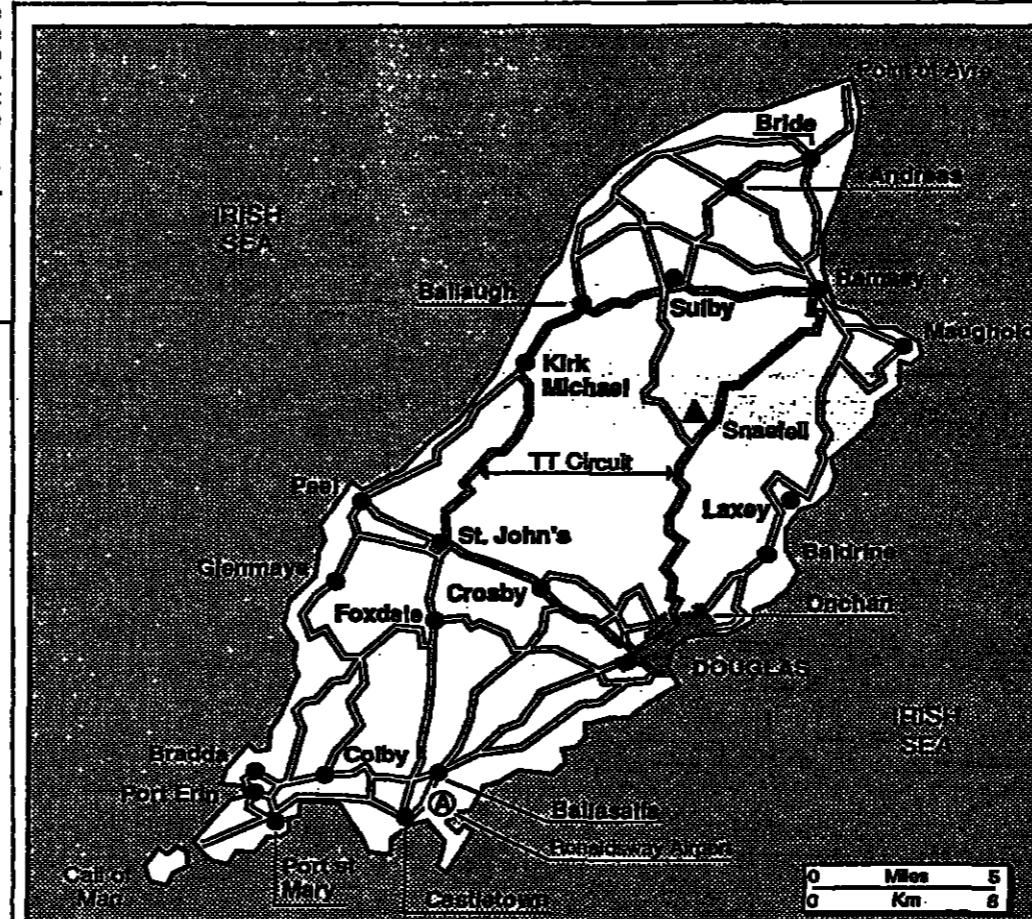
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KEY FACTS

Location: Irish Sea, 30m from England, 27m from Ireland, 16m from Scotland, 48m from Wales
Area: 221 sq miles
Length: 32.5 miles
Breadth: 13.5 miles
Highest point: Peak of Snaefell 2,036 ft
Climate: temperature -7 deg C to 25 deg C. Rainfall app 1,000mm annually.
Population: 64,282. Main towns: Douglas 20,368, Ramsey 10,000, Peel 5,778, Castletown 3,680, Ramsey 3,019
Average house price: 1984 £33,974; 1987 £41,012.
Banking licences 45
Insurance companies 68
Accountancy firms 59
Advocates' practices 16
GDP £200m (1985-86)
Govt receipts £116m (1987-88)
Govt spending £108m (1987-88)
Basic tax rate 10 per cent
Higher rate 20 per cent
Corporation tax 20 per cent

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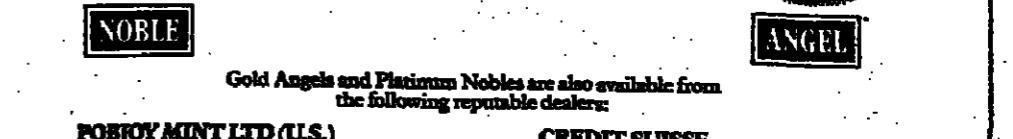
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ISLE OF MAN 3

FINANCIAL SERVICES

A wider spread with room for growth

JOB IN the Isle of Man's finance industry increased by 30 per cent to nearly 2,100 in the six years between 1981 and 1987, according to a survey carried out by the island's government last December.

However, the figures do not tell the story, for the change is more importantly qualitative than quantitative. Moreover, the growth of the industry has only just begun. The quality of newcomers is high and there is every intent to grow substantially.

Before the island set its regulatory house in order following the collapse of the Savings and Investment Bank in 1982, it was little more than a deposit-taker, with some deposit-takers more respectable than others. As a provider of financial services in general, the Isle of Man offered little.

While the government sorted things out, there was an embargo on new banking and deposit-taking licences, so that service to the island's international promotion of the island as an offshore centre did not really get under way until 1985.

A trickle of newcomers in the last two years has seen the number of licensed banks rise to 46, with new attitudes now very apparent. They are probably best personified in Mr Nicholas Owen, the managing director of the new Robert Fleming banking operation in Douglas.

Flemings was one of the first full banking licences granted after the embargo was eased. Mr Owen, 36 years old and a Master of Business Administration (MBA) as well as a banker, has a combative air about him. "We are trying to develop a fully international investment bank here," he says.

"The nature of our work is different from what people have seen here before. In the past, the Isle of Man was used by banks for deposit-taking, not as a trading centre for making good profits. We have a much more sophisticated investment approach."

Total staff number 14, including two other bankers, one of them also with an MBA. Mr Owen is looking for a chartered accountant and a chartered secretary. Flemings runs its own money-book. He claims that most local commentators have not even got their names and details pasted on to the London market.

He sees his market growing all the time as, for example, the island's insurance industry expands and the captive insurance companies in particular have large sums to be managed. For deposits exceeding £100,000, he offers a bespoke service.

"Portfolio management at the institutional level has been very good. We have developed much more local business than we expected," Mr Owen says.

Flemings has also been doing good business in locally-run foreign exchange dealing, allowing depositors to switch between currencies at wholesale rates.

While Flemings is not very interested in private portfolios much below £100,000, Warburg Investment Management will go down to £50,000, with a £250,000 floor for corporate



Abol Street, Douglas: heart of the Isle of Man's commercial district

business. Warburgs has been one of the government's three investment advisers since 1988, prompting a joking aside from Mr David Cannan, the Finance Minister, about taking 18 years to decide to open an office on the island.

However, the bank had been active since 1978 and in 1982 took over two unit trusts from Barclays in Douglas. "We felt for the first time that there was critical mass of business for it to be worthwhile opening here," says Mr Barry Beale, the director in charge. He too sees the developing insurance sector providing substantial corporate business.

The latest big arrival on the island is the Bank of Bermuda, which recently bought out Kleinwort Benson and the Montreal Trust Company from the jointly-owned Arawak Trust, giving the bank control of Arawak's operations on the Isle of Man.

Arawak's licence — a restricted one enabling the holder to manage banks licensed in other jurisdictions — has been transferred. Mr Jim Noakes, the island's banking supervisor, says that any application for full licence by the Bank of Bermuda will be looked at "very positively".

Bank of Bermuda senior managers were on the island two weeks ago for discussions.

Meanwhile, NatWest International Trust has bought out Royal Life of Canada from Royalwest, a formerly jointly-owned trust operation, and has chosen the Isle of Man as its European headquarters. It is putting up its own building and will eventually employ 200 people.

Another newcomer is British and Commonwealth, whose way in was to buy Douglas Bank, one of four existing banks for sale to suitable buyers — which means that the purchaser must be approved by Mr Noakes.

The other three are the Anglo Manx, Mercantile and Overseas, and the Celtic Bank. The last of these is owned by the supermarket and property

The quality of the newcomers is high

may account for why Mr Gubay is in no particular hurry to sell.

Some of the traditional clearing houses have not been standing idly by while all this activity has been going on — and although NatWest has reduced its activities to one branch in Douglas, it does have the Isle of Man bank as a wholly-owned subsidiary.

Mr John Allen, a native Manxman who stepped up from deputy to general manager last year puts the bank's share of the retail market at 50 per cent, with Barclays second at about 22 per cent. Mr Allen heads an operation with 15

millionaire Mr Albert Gubay, who stresses that he does not really want to sell, but might if someone acceptable to the government made a good enough offer.

The bank's latest results, published last month, showed a record profit of £1.8m, which

branches and more than 300 employees.

He can be fairly accurate in such estimates because the Isle of Man is the government's bank and processes everyone's payments of rates each year. It can work out each bank's share of the market simply by counting the cheques.

The Isle of Man Bank is unlikely to lose its market leadership almost by virtue of its name alone. But it is also working hard to earn to its keep. It is self-contained, with comprehensive data processing, so that it does not have to call on its mainland parent for anything and no one's accounts are in any way handled off the island.

Last year it made its overseas department an autonomous branch under entrepreneurial management, which promptly justified the decision by turning in £300,000 of profit in its first year. In the same period, the local deposit base rose by 8 per cent to £250m.

With the Royal Bank of Scotland determined to make an increased impact, Barclays, which has six branches on the island, has reorganised to safeguard its position. The Manx operations report to Liverpool where Mr Brian Thaxter, the new regional director, decided that Barclays needed to do much more in the fast developing Manx marketplace.

He has put Mr Eddie Shallcross, one of his top managers, in charge, bumped up the managerial team from three to seven, with two more to come, and centralised services on Douglas so that the resulting economy of scale will allow them to be segmented into specialised departments.

It means that half of Barclays' 120 staff are now concentrated in Douglas, compared with 45 previously. Barclays expects to do well with its Douglas business centre for industry and commerce, an international department and a private banking unit for better-off customers.

The banks are on their mettle, however, because British building societies are now moving in. The Leeds, Nationwide and National and Provincial have arrived already, with Britannia and Bradford and Bingley about to.

They will use the island pri-

marily as base from which to tap offshore savings for the benefit of the UK housing mar-

ket, but they are already having a major impact and may well have taken in £100m of local savings in their first few months.

Generally they are offering 1 to 1.5 per cent more in interest than the clearing banks, some of which are responding with special deals for deposits of £10,000-plus, provided the money goes on one month's notice.

Meanwhile, the island's insurance sector grows rapidly. Dr Bill Hastings, the new insurance supervisor, says there are now 71 authorised insurance companies on the island, 52 of them captives (subsidiaries of large corporations) which use them to arrange their own insurance.

The island's Exempt Companies Act of 1981 was written especially to attract the insurance industry. They use the island as a base but write their business abroad. The Act then exempts them from income, capital gains and corporation tax.

The gains to the island are jobs, not only in the industry itself but also among the suppliers of goods and services which the insurance companies buy in. Royal Life, which provides more than 100 direct jobs in Castletown and has a rapidly growing share of the reinsurance market, is moving to bigger offices to allow for yet more expansion.

CMI, which started up only last year, is already up to 45 staff, even though Mr Mike Richardson, managing director, admits that everyone is still learning how to market global products with no network of brokers and intermediaries to help them, as the UK.

The other big names in life insurance on the island include Eagle Star, NEL and Equity and Law. Allied Dunbar and Barclays Unicorn are also in the marketplace as fund managers attacking the same or similar markets.

Financial services therefore look very different from six years ago, when the island was a definite backwater compared with Jersey and Guernsey. Now it has a wider spread and room for growth. Only staff shortages seem likely to hold it back.

Ian Hamilton Fazey

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In August 1986 HSPE was appointed by The Manx Electricity Authority as main contractor for a 19.2MW diesel power station extension at Portree, Isle of Man.

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The property boom is being held in check by planners' restrictions

Strategy may prove too inflexible

THE FACT that 11 per cent of the Isle of Man's working population is currently employed in the construction industries - only two percentage points less than those working in manufacturing - is one of the clearest pointers to the fact that the island is in the throes of a property boom. Not that such statistics are needed. The sights and sounds of it are at every turn.

Against the background of rapid expansion in the financial sector, the office market is extremely buoyant and many major developments and refurbishment programmes are under way.

Rental levels for modern office accommodation have risen sharply from the £6 per sq ft level of two years ago to £10 per sq ft and more, for pre-lettings now being negotiated.

Most of the new office developments, of between 10,000 and 20,000 sq ft, now going on in Douglas are already pre-let and it seems highly unlikely that this year supply will keep pace with demand.

Mr Geoff Black, commercial director of property agents

Cowley Groves in Douglas, says: "Further expansion of the office sector is tightly controlled by the Douglas Town Centre Plan. Although this is currently under review, it seems likely that the island's planning authorities will continue to restrict office development to town centre locations."

Some further demolitions of older properties will provide sites for limited new development. But if the demand pressures continue - as they show every sign of doing - and with a five storey limit to new buildings in force, it seems inevitable that the authorities will ultimately have to re-think their 20-year policies.

Douglas is the natural magnet for those moving into the financial sector. But elsewhere on the island smaller business complexes are establishing themselves, for example at Ramsey, Ballasalla and Castle town, where, for one thing, parking is very much easier.

The retail shopping sector is another now in the thick of a period of rapid change and development. In Douglas there

is, once again, a zoning policy in force with retailing focused on the Strand Street area, between Howard Street and Regent Street. Royal Life is at present constructing Douglas' first modern shopping centre there, having taken two years to assemble a site at the northern end of Strand Street.

The Isle of Man has been largely ignored by many of the big UK multiples for many

impressive homes are being built in the £200,000 plus bracket.

But a halt has been called to local authority building

years because of poor spending power among its small population. In the wake of increasing affluence and a burgeoning economy they are now moving in one after the other in quick succession.

Prime site rents which had languished at around £20 a sq ft for several years have taken

off to a current level which is, in some cases, double that figure.

The signs are that that in retailing, as in office development, the existing planning strategy may prove to be too inflexible.

Besides Douglas, retail developments are taking place at Port Erin and at Ramsey, where Monroe Holdings has recently completed a 17-unit Victorian-style Shopping Mall connecting Parliament Street with a new 15,000 sq ft store for Prada.

The island's industrial property market is largely centred on a number of strategically-sited industrial estates. Rents are generally established at £2 a sq ft, rising to £2.40 for some smaller units.

This is a level which - coupled with the various elements in the government's industrial aid programme - is reckoned to be highly attractive to new industries.

House prices on the Isle of Man are generally lower than those in mainland UK but, viewed by the established island residents they have, dur-

ing the past couple of years "gone through the roof" - rising by an average of more than 30 per cent.

Much of the house building now going on caters for the upmarket sector, with some impressive "executive style" homes, in highly desirable seafront areas, like Onchan, in the £200,000 plus bracket.

Problems exist elsewhere in the market particularly for the younger first time buyers who are finding themselves priced out. A number of schemes to add to the stock of lower priced housing and correct this imbalance are currently under consideration and, fortunately, the one thing the island is not short of is space.

At the moment a halt has been called to local authority house building, apart from one or two sheltered accommodation schemes, and efforts are being concentrated on the improvement of the existing stock of some 5,000 dwellings.

This policy is due to be reviewed as the planned population increase takes place.

R W Shakespeare

HOTEL DEVELOPMENTS

Good news for business travellers

SOME PEOPLE may have misgivings about the Isle of Man's ultimate future in tourism, but those in the top end of the hotel business are clearly not among them. In a flurry of activity involving substantial investment, the major hotel owners, and developers of new ones, are gearing themselves up for a new "Golden Age" with tariffs to match.

For many months now the visitor has been hard put to it to find a room in a decent hotel out of earshot of workmen's hammers. Spurred on by the prospect of lucrative trade from the island's exploding business community and its visiting associates, by the potential of many a high powered conference or seminar and by the Tourist Board's vision of a new breed of more upmarket, short period, stay-in-the-island holidaymakers, the hotels are busy speculating to accu-

plants."

The island's casino, which the Palace houses, is also being reconstructed. Although the only modern hotel in Douglas, the Palace has been criticised in the past for not being up to "international business class" standards. It nearly lost its government licence to operate the casino last year and is determined to make sure that

it has a state of sorry dilapidation it has now re-opened after a £2m programme to restore it to splendour. Its chandeliers, glitter in the Regency decor. Prices start at £25 (single) and can be as much as £190 a night for some of its 65 bedrooms and a dozen suites.

The Palace Group also owns

the Golf Links Hotel, at Castletown, overlooking Derby Haven. It took over in 1986, spent half a million pounds on upgrading and now plans to spend a further £1m on extensive plans to provide an additional 51 bedrooms. The group also owns the championship-standard Castletown golf links, which adjoin the hotel.

It never runs such a risk again. However, until the economic boom got going and the financial crisis started mauling hotels on the island were fighting for slices of a diminishing cake and there was not enough cash flow to justify the sort of investment under way now. Indeed, hotel closures have been more the order of the day in recent years, against which background the Palace might fairly be viewed as a gallant survivor of a long period of attrition.

Casualties included the historic Castle Mona Hotel, next door to the Palace, built by the Duke of Athol in 1806. Economic recovery on the island has resulted in this fine building being rescued by new own-

ers, the Montague Group. From

the Empress and the Sefton have also launched major improvement programmes in which swimming pools, health and leisure clubs, steam rooms and saunas, sun beds and jacuzzis abound. The Villiers Hotel, a Victorian landmark, is at the centre of a project that will involve the demolition of a line of private hotels from the same era together with the hotel itself. A planned 25m development on this Loch Promenade site will include a new four-star 112 bedroomed Villiers Hotel together with a mixed commercial and retail complex.

Meanwhile, in the north of the island, the Grand Island Hotel at Ramsey has been refurbished and decorated throughout in country house style. Its new Club Henley also offers swimming pool, sauna, gymnasium, sauna, sunbeds, steam room and the services of a beautician and hairdresser. It has to overcome the psychological barrier of being half an hour from Douglas and at the

opposite end of the island from the airport, but quality may help it do so, particularly if pressure of space forces businesses to look beyond Douglas for room to grow.

Indeed, the biggest hotel scheme ever mooted for the island is planned for the west coast on the seafront at Peel by Barlows Development Corporation. It envisages a 200-bedroomed hotel and, on the headland above the town, with associated leisure and sports facilities, a restaurant and a conference centre. It would cost around £14m if it goes ahead.

One other piece of good news for the business traveller however is that the defunct Admirals House, a small but excellent bed-and-breakfast hotel on the promenade, has been restored by Boncupper, owner of one of the island's best restaurants.

R W Shakespeare

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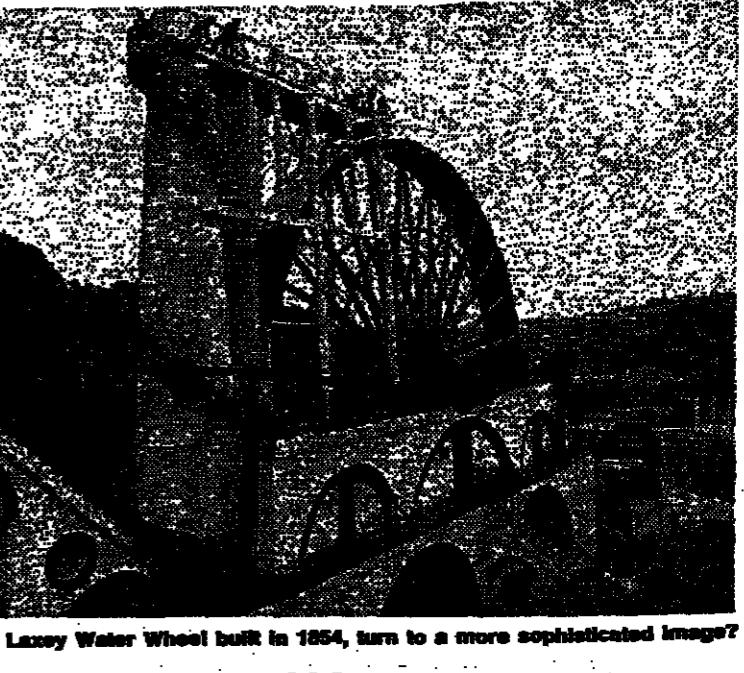
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WHY "Lady Isabella," the Laxey Water Wheel built in 1854, turns to a more sophisticated image?

TOURISM

A move upmarket

THE HARSH truth about tourism and the Isle of Man is that most of the images acquired over the past half century or more, no longer sit comfortably alongside the new persons that the island is trying to project to the outside world. And yet they persist.

This is because of horse drawn traps and "mystery" coach trips, deck chairs and buckets and spades on the beach and paddles in the sea, fish and chip teas and kippers for breakfast.

It is also because of the - at best - fading elegance, or - at worst - downright shabbiness of smaller hotels and boarding houses along the Promenade and its side streets, or because of beer from Castletown Brewery, music by Ivy Benson and her band, and once a year the deafening roar - and all too frequent deaths - of the TT motorcycle racing fortnight.

These are the things that brought half of Lancashire flocking over to the island in the 1950s, 1960s and 1970s, impelled only by war. Now they are to Spain or California.

And yet, old habits die hard. Of almost half a million passengers who arrived on the island by sea and air last year, about half were holidaymakers or day trippers. They came from mainland Britain, predominantly the North, and from Ireland, north and south. They spent a great deal of money (accounting for more than 12 per cent of the island's GDP) and provided a comfortable, if not lavish, living for many thousands of the island's residents.

And yet, too, everyone knows that left to its pleasantly nostalgic links with the past tourism will ultimately die - and sooner rather than later. Quite apart from all other considerations, this is not the Costa-anything or a Greek island. The weather is, to put it kindly, capricious. Even on the warmest of summer days, collapses from heat stroke is a minimal hazard. It is not, in short, the place for today's vast army of sun-worshippers.

The figures show the general decline - from 260,000 in 1972 to 400,000 last year. However, there is more to the trends than the global figures suggest. In 1987 arrivals by air increased the 200,000 mark for the first time in 11 years, while sea arrivals dropped to their lowest level of only 270,000.

The shift to the air is about much more business travel or short-stay tourism. It is about people coming for special events or for long golfing weekends.

These days the Isle of Man

of holidaymakers. Owners of the many smaller hotels and boarding houses could not afford the kind of investment needed to compete in that sort of market - even if their premises justified it. Some are already being bought up to provide the sites for new hotels, restaurants, shops and the inevitable wine bars.

Some will survive of course. Others will simply close as the changing pattern of tourism overcomes them. For Douglas in particular the residual problem will be that of deciding how the seafront area will ultimately be redeveloped to enhance the Isle of Man's new upmarket image. So far, the Manx government has set its face firmly against allowing any spread of office and commercial property development to the Promenade area.

The opportunity exists for an imaginative approach. How the Isle of Man grasps it will decide much about its "look," feel and atmosphere in the coming decades.

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Tom Dootson

Chief Executive

PERIGRINE INTERNATIONAL LIMITED

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ISLE OF MAN 6

PROFILE: MANNIN SEA FARMS

Tame turbot and high tech

AFTER KIPPERS and that other Manx marine delicacy, the queen scallop comes... the turbot.

Two large green sheds near the end of the Ronaldsway Airport runway do not look up to much, yet they house some of the highest technology on the Isle of Man. Do not look here, though, for electronic wizardry or robots, but for human brain-power and knowledge at work.

Inside the sheds, two marine biologists may well have solved one of the most difficult problems in animal husbandry - how to rear baby turbots in sufficient numbers to make it worthwhile. The prize could be worth millions.

The turbot is a rare, flat fish with juicy flesh. Less than 10,000 tons of them are landed from fishing every year and demand has gone unsatisfied since time immemorial. One reason is that they are not all that many turbot in the sea.

In the wild the infant mortality rate is 989,999 per million eggs. The scale of the problem facing Mannin Sea Farms, the company housed in the green sheds, is that commercial viability rests on a survival rate of 3 per cent - 30,000 times better than nature.

Why it is all so difficult is that unlike the easy-to-rear salmon, baby turbot cannot eat just anything. When they first hatch they live in the plankton; they ingest, drifting among it at risk of being swallowed by bigger fish.

They start on microscopic specks called rotifer and, if they are not eaten themselves, they gradually grow big enough to swallow somewhat bigger crustacean specks called brine shrimps.

The secret of Mannin Sea Farms is to reproduce this food cycle in carefully controlled conditions, but without the predators.

Each tiny creature which gets beyond this stage has every chance of becoming a fully fledged turbot measuring a good foot in diameter, weighing about 1.8 kilos, and with a market price on its head of about £8 per kilo.

Not that they will make it this far at Mannin Sea Farms, for this is a hatchery. The aim is to get each fish up the size of a 10p piece and weighing about



Richard Slaski (left) and Paul West, founders of Mannin Sea Farms

1 grammme in about 80 days. At this stage they are sold on to fish farms in warm waters of Spain for £1 each. They will then take 30 months to reach marketable size.

At you need to do all this hatching and nursery work is about 230,000 of venial capital, a degree in marine biology and about ten years relevant experience. There are very few people in the world so qualified, but there include Mr Paul West and Mr Richard Slaski. Aged 31 and 33 respectively, they have just set up Mannin Sea Farms.

Previously, they were with Golden Sea Produce in Scotland for ten years and were the brains behind that company's own successful turbot hatchery. But Norsk Hydro, the company's owner, decided to move operations to Spain and they did not want to go.

They were also on only £18,000 a year each, despite being the company's highest paid British-based scientists. About 18 months ago they went looking for somewhere to set up where they could do better for themselves.

Apart from the warmest welcome and a promise of £162,000 of capital grants, the Isle of Man offered the best prospects, with exceptionally clean water - despite what anyone says about Sellafield - and an airport outside the front door.

The water is fed into a series of tanks inside the 9,600 sq ft of

buildings, filtered, and kept at 20-23 degrees centigrade. This is about 6 degrees warmer than the wild and has the effect of doubling the young turbot's growth rate.

The original eggs from which the babies are hatched come from Mannin's own brood stocks of 190 prime specimens, themselves bought from fishermen or fish farmers. These are stripped of eggs or sperm three times a week for the three months of mating season each year.

They will live for six years or so and, eventually, the lights over their various tanks will have been adjusted and staggered so that spring will come at different times for different tanks, allowing eggs to be harvested for 11 months of the year.

As the young offspring grow, they are transferred to new tanks, with their numbers spread between more and more tanks as the fry get larger. Not that they mind a crowd. "Turbots are gregarious. They like it dense," Mr West says.

The transfers allow the little fish to be counted, so Mr West and Mr Slaski can tell their NatWest bank manager how they are doing.

When each fish is about a 5p coin across, they are weaned off plankton onto meal, quickly learning to feed off the bottom, where their underside eyes will start to migrate round their heads.

Ian Hamilton Fazey

TRANSPORT

Government seeks bigger say over sea links

WHEN THE most recent seamen's strike brought the Isle of Man Steam Packet Company's ships to a halt it was yet another reminder - if one were needed - of just how vulnerable the island is to prolonged industrial action.

True there are other shipping lines that carry cargo in and out of Douglas and the island has an efficient airport. Nevertheless, the Steam Packet Company is the major sea carrier of both passengers and day to day freight and it takes no quantum leap of the imagination to appreciate that any spread of strike action among other groups of workers - dockers, airport staff and the like - would soon put the island in very serious trouble, if not a state of siege.

It is a spectre that haunts the Isle of Man government and one about which it is more than a little sensitive - well aware, as it is, that its best-laid plans for a prosperous and respected, as well as largely autonomous society, are open to attack by the actions of workers who belong to mainland-based trade unions.

Production of baby turbot started at Easter with great success. The current survival rate is 8 per cent of hatched eggs, or 80,000 times better than the wild. Production should reach 125,000 fish this year, 200,000 next year and 500,000 in five years - all at £1 per juvenile fish.

Overheads will peak at about £100,000, with variable costs at about 3 per cent of turnover, so Mannin's backers are hoping that the initial success will be maintained.

Who are these lucky people? NatWest, which put up £250,000 of loan capital under its growth options scheme, will be paid back at 15 per cent, while £1 should see the value of its £50,000 of equity grow like fish-farmed turbot.

The transfers allow the little fish to be counted, so Mr West and Mr Slaski can tell their NatWest bank manager how they are doing.

When each fish is about a 5p coin across, they are weaned off plankton onto meal, quickly learning to feed off the bottom, where their underside eyes will start to migrate round their heads.

It has improved its financial position. It has taken steps to resolve difficulties over manning agreements and its directors have agreed that there is a need to implement a range of other improvements. The company has also agreed to make its business plan available to the government to form the basis of future discussions.

The Shipping Committee has come up with its own set of proposals following consideration of the consultants report and its discussions with the company.

It rejects - as did the consultants - any form of nation-

wide a minority shareholding in the Steam Packet Company. The committee proposes that this should be sold. It says the shareholding does not provide for any measure of control and has proved to be an embarrassment during industrial disputes since it has been difficult to convince the National Union of Seafarers that the government was genuinely neutral.

What most concerns the Shipping Committee is that the government, as things stand, lacks any real influence over the shipping company's operations in what, for the island, is a crucial area. It believes the government must have some form of sanction that enables "broad strategic issues to be positively influenced when appropriate."

It says that this would be possible if the government owned the linkspace at Douglas Harbour and it wants to enter into negotiations with the Steam Packet Company to buy them. Should these negotiations fail, Tywald would be asked to pass legislation for their compulsory purchase.

Ownership of the two Douglas linkspace would give the government a neat but highly effective means of influencing policy since it would mean that it could grant, or withhold, the vital use of them. Access would only be given to an operator prepared to provide services of specified frequency and standard.

The Wallem report recommends that another operator should be subsidised to compete against the Steam Packet Company "in order to stimulate efficiency and improve services." But this option is rejected by the government committee. It would, it says, be an illogical step to subsidise one operator in order to encourage another to undertake particular actions. In any event the outcome might, at the end of the day, simply be another monopoly.

The Isle of Man Government

R W Shakespeare

LABOUR RELATIONS

Goodwill no longer enough

THERE ARE 23 trade unions with members on the Isle of Man, all of them based in mainland UK. They range from the big guns, like the Transport and General Workers, which dominates and has a modern headquarters in Douglas, to the minnows.

Industrial relations on the Island are officially described as "very good". Although the seamen's stoppage got a high profile, strikes are rare. Picketing, when it takes place at all, is orderly and non-violent. But, amazingly in modern democracy, the island has little by way of industrial relations legislation.

There is no equivalent of the Employment Protection Act, or requirement for unions to ballot before strike action. Protection against unfair dismissal is limited and equal opportunities rest on goodwill.

People on the island therefore felt very vulnerable earlier this year when a build-up of minor disputes culminated in a wave of sympathy strikes which led to the nearest thing to a general strike. It paralysed the island, shutting its port and airport, and shaking even the unions with the realisation of the extent of their own power.

It was a shock. Mr Miles Walker, the chief minister, puts it this way: "The way it happened surprised people in

that there was not an adequate presentation by the people who went on strike that might have warned people of the repercussions."

"It was all left in the air and we had to wait until the Monday to actually happen to see exactly how it was going to affect us. That sort of uncertainty disappointed and worried people. But it was an expression of concern by the island and make recommendations. The process includes widespread consultations, which have included open-door sessions for the public at large in schools, meeting halls and similar such venues around the island.

Mr Len Collinson, the consultancy's managing director, is an acknowledged expert in the field. His industrial relations track record includes a

"There is need to bring our law up to date"

workers and I would not expect it to be repeated."

The main reason why is that government has decided that the island cannot afford to live without trade union laws that will confer rights and responsibilities on both sides, perhaps similar laws to the UK's.

This legal framework, it hopes, will help create a better atmosphere in which confrontation or the threat of it will be reduced. If people - again, on both sides of industry - have guarantees, will they need to invoke their ultimate weapons to force the hand of others?

The Isle of Man government has therefore appointed Collinson Grant, a Manchester-based firm of specialist consultants, to conduct a thorough survey of the whole area of individual and collective rights on the

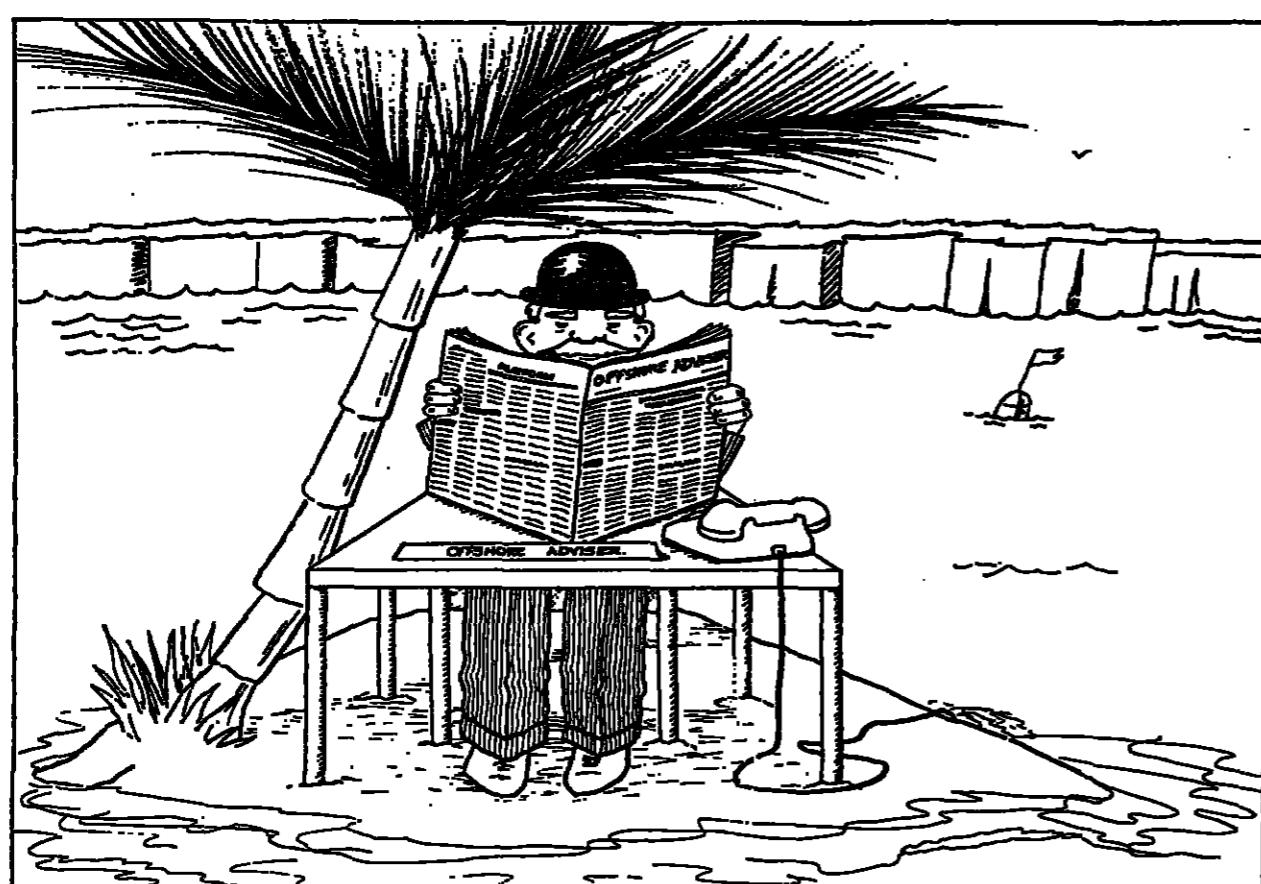
wants to consolidate and exploit its relationships with the European Community, move its tourism up market, establish an international reputation for honest dealing throughout the world and care for its own citizens. At the same time it is determined to preserve its historic independence and autonomy.

All this implies fundamental change, not least in the area of moving the island out of a low wage, and largely unskilled, employment pattern; a community which is already identifying a number of basic inequalities; between the haves and the have-nots; between opportunity and the absence of it; between the apparent "rights" of some individuals as compared with others and, in some areas, between the sexes.

Mr Walker says: "There is need to bring our law up to date as regards industrial relations and social legislation, but we need to know exactly where we are going. That is why we have taken on Collinson Grant as experts. We expect their report in October and would hope to bring in legislation next session."

"Changing the law will not change things without the right will, but that is what we are trying to generate at the moment."

R W Shakespeare



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INTERNATIONAL COMPANIES AND FINANCE

Chrysler's second quarter hit by price cutting

By Anatole Kaletsky in New York

CHRYSLER, the third largest US motor manufacturer, suffered a significant decline in profits in the second quarter as it cut prices to fight for market share against larger US and Japanese rivals.

Chrysler's results confirmed the message from the earlier second quarter reports of Ford and General Motors — that competition in the US car market has continued to intensify despite the lower dollar and the unexpected strength of retail demand.

Unlike the other two US motor manufacturers, Chrysler had no significant overseas operations to insulate its results from tough conditions

at home. It earned \$320m or \$1.45 a share in the second quarter, down 24 per cent from the \$424m or \$1.58 it reported a year earlier.

For the first half of this year, the net profit was \$597m or \$2.69 a share, before allowing for a \$53m provision connected with plant closures. The comparable figure for the first half of 1987 was \$693m.

Mr Lee Iacocca, chairman,

made no apology for the declining results, asserting that he "knew we were sacrificing short-term profits to gain market share in this fiercely competitive environment."

Chrysler deliberately maintained the lowest prices in the

industry, while giving rebates that ranked among the highest and committing heavily to marketing programmes, he said. During the second quarter Chrysler sold 42 per cent of its passenger cars for prices lower than last year's.

This effort brought a two-point market share gain in trucks to 20.7 per cent and a half-point advance to 11.3 per cent in the car market. The company's combined car and truck market share increased by 0.9 percentage points to 14.4 per cent. With Ford and GM also performing strongly, Chrysler's gains were mainly at the expense of the importers, who lost 2.8 per cent of the



Lee Iacocca: sacrificing short-term profits

US vehicle market in the second quarter.

Net revenues increased by 32 per cent in the second quarter to \$8.45bn. In the first six months of 1988, revenues advanced by 30 per cent to \$16.16bn while retail sales volumes increased by 16 per cent to 1.185m units.

Kerkorian capital raising plan collapses

By James Buchan in New York

A COMPLEX, controversial plan by Mr Kirk Kerkorian, the West Coast businessman, to reorganise his movie holdings and raise around \$172m in outside capital collapsed yesterday because of disagreement with the main investors.

MGM/UA Communications, the loss-making company formed by Mr Kerkorian from the remains of the MGM and United Artists studios and 82 per cent owned by himself

yesterday that it would no longer go ahead with the plan to split the company in two and sell 25 per cent of MGM for \$100m to two Hollywood producers backed by Mr Barr

Sugerman, a Beverly Hills entrepreneur.

MGM/UA stock, which has traded as high as \$19 this year, tumbled \$1.4 to \$11.5 in early trading yesterday.

The deal, which was announced on July 11, was part of a rights issue which would have raised a further \$72m from the minority public shareholders of MGM/UA but left Mr Kerkorian with majority stakes in both studios.

Some observers on Wall Street and in Hollywood were baffled by the deal and felt Mr Sugerman and the producers, Mr Peter Guber and Mr Jon Peters, were paying too much for their share of MGM.

Mr Stephen Silbert, a close associate of the reclusive Mr Kerkorian and chairman of MGM/UA, said there were "extensive discussions and negotiations over the past two weeks in an effort to agree the terms of the proposed transaction. Unfortunately, we were unable to reach a settlement."

• Walt Disney, the film-production and theme-park company which is enjoying a powerful revival of its fortunes, yesterday reported its highest quarterly earnings and revenues.

The Burbank, California company, which has seen earnings rise steadily since a management shuffle in 1984, said that net income in its third quarter to June rose 35 per cent from continuing operations to \$165m or \$1.20 a share. Revenues were up 22 per cent to \$915.7m.

At the nine-month stage, Disney's earnings from continuing operations were 37 per cent ahead at \$365.8m or \$2.51 a share on a 14 per cent increase in \$2.43bn revenues. Revenues were 14 per cent higher at \$2.42bn.

The best performance came

from Disney's revived film business, where *Three Men and a Baby* and *Good Morning, Vietnam*, which have grossed some \$295m, contributed strongly to the quarter's results. Operating income from films and came in the June quarter rose 138 per cent to \$47.8m on a 46 per cent rise in revenues to \$259.6m.

In the larger theme parks business, which includes Disneyland in California and Walt Disney World in Florida, operating income in the quarter was up just 1 per cent to \$160.4m despite 12 per cent better revenues at \$399.8m. The company said attendance was down on the high levels of 1987.

Disney's consumer products business, which markets records and books, saw operating income rise 36 per cent to \$33.8m on a 43 per cent jump in revenues to \$86.15m.

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from Disney's revived film business, where *Three Men and a Baby* and *Good Morning, Vietnam*, which have grossed some \$295m, contributed strongly to the quarter's results. Operating income from films and came in the June quarter rose 138 per cent to \$47.8m on a 46 per cent rise in revenues to \$259.6m.

In the larger theme parks business, which includes Disneyland in California and Walt Disney World in Florida, operating income in the quarter was up just 1 per cent to \$160.4m despite 12 per cent better revenues at \$399.8m. The company said attendance was down on the high levels of 1987.

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INTERNATIONAL COMPANIES AND FINANCE

Maxwell bid delays Suez venture

By Paul Bettis in Paris

COMPAGNIE Financière de Suez, the privatised French financial group, and Mr Robert Maxwell are still negotiating a joint communications venture despite Mr Maxwell's \$2.8bn bid for Macmillan, the US publishing concern.

But the US bid has seriously complicated the talks aimed at forming a joint communications venture between the UK media entrepreneur and **Société Générale de Belgique**, the Belgian arm of the conglomerate controlled by Suez after an epic battle against Mr Carlo De Benedetti earlier this year.

Suez also acknowledges the negotiations with Mr Maxwell have been further complicated by the noisy controversy that has erupted in France over changes in the shareholding structure of Havas, the privatised media and advertising group in which both Mr Maxwell and SGB own a 5 per cent stake.

Mr Maxwell and La Générale announced last month they were studying setting up a communications joint venture which would involve Mr Maxwell acquiring a sizeable

minority stake in the Belgian group and the pooling together in the new joint venture of communications assets held by the two parties.

For Suez, the attraction was that the joint venture would consolidate and expand La Générale's activities in communications while bringing into the Belgian group a major friendly shareholder.

Suez and its Belgian partners control about 80 per cent of **La Générale**. Suez would like to reduce this stake to about 51 per cent in coming months and eventually more.

The share sales would also help the French group wipe out a FF1.2bn (\$315m) short-term debt risk due to the acquisition of part of Mr De Benedetti's stake in the privatised French company.

But there was immediately a widespread perception in France that Mr Maxwell was attempting through the deal with La Générale to increase his stake in Havas and that he was being actively encouraged by the new French Socialist Government as part of its efforts to break up the core shareholding structures of

Havas is a key shareholder of Canal Plus with a 25 per cent stake in the pay television network. Mr Roussellet, a close friend of President François Mitterrand, was clearly worried by Mr Maxwell's foray into Havas, openly voicing his objections and suggesting that Canal Plus itself was considering acquiring a stake in Havas.

Suez has been at pains to emphasise that Mr Maxwell's manoeuvres around Havas have nothing to do with the French group's interest in associating Mr Maxwell with La Générale in a major European communications venture.

The French financial group claims that a Maxwell-La Générale association in the communications business remains attractive to both parties since it would give Mr Maxwell a significant European platform and reinforce La Générale's ambitions in the communications sector.

For the time being at least the negotiations between Mr Maxwell and Suez seem to have little chance of succeeding. Suez appears to have no intention or interest in helping support Mr Maxwell's US take-over bid for Macmillan and the last thing it wants is to be caught up in the current political maelstrom over Havas.

A strategy to shed minority shareholdings

COMPAGNIE Financière de Suez has sold a 6 per cent stake in Beglin-Say, the French sugar group controlled by Ferruzzi of Italy, for about FF1.2bn (\$43m), writes Our Paris Staff.

The sale is part of Suez' strategy to shed minority shareholdings in companies which the French group considers as passive investments.

Suez recently shed its stake in the Delmas-Vieljenx shipping group for about FF1.2bn and a stake in Optorg, a distribution company, for FF1.6bn.

Suez has also launched a policy of acquiring stakes in groups in which it plans to play an active investment role.

This has led Suez to acquire for FF1.5bn a 5 per cent stake in a holding company which will have a prominent role in the Elders IXL group of Aus-

tralia.

Suez also recently acquired a 10 per cent stake in the French Enor group.

The broad strategy of Suez is to divide its FF1.2bn share portfolio into two sectors with FF1.2bn worth of shareholdings in different companies regarded as long-term stable investments and the other FF1.2bn of holdings rotating on a five-year basis.

initial stakes of 9.9 per cent in each other and may raise these to 25 per cent.

The combined balance sheet total stood at Ecu112.8bn on 31 December, 1987, ranking the alliance seventh among European banks.

Based on clients' deposits of Ecu53bn and banks' deposits of Ecu44bn, the alliance is Europe's sixth largest bank, the statement said. Combined capital and reserves amounted to Ecu3.3bn and subordinated loans to Ecu1.7bn.

Loans to the private sector stood at Ecu47.5bn, those to the public sector at Ecu20bn and placings with other banks at Ecu34bn. In March, each bank announced its own 1987 results.

Géneral reported a consolidated net profit of BF76.4bn (\$16.5m), up from BF75.9bn in 1986. Amro posted a net profit of Fl.473m compared with Fl.414m in 1986.

The Ecu is a notional EC currency based on a basket of 10 member currencies weighted according to each member's share of EC output.

groups privatised by the previous right-wing government of Mr Jacques Chirac.

However, Mr Maxwell's manoeuvres appear also to have worried influential personalities close to the Socialist camp, including Mr André Roussellet, a former chairman of Havas and current head of the highly successful French pay television network Canal Plus.

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Benelux banks combine profits

By Our Financial Staff

GENERALE Bank of Belgium and Amsterdam-Rotterdam Bank of the Netherlands yesterday published combined 1987 results expressed in European currency units marking a further step towards a planned integration.

The results showed that the two banks' combined consolidated net profit in 1987 amounted to Ecu554m (\$85m). The two banks forged an alliance in February with the aim of forming a multinational integrated banking group within three years. They took

initial stakes of 9.9 per cent in each other and may raise these to 25 per cent.

The combined balance sheet total stood at Ecu112.8bn on 31 December, 1987, ranking the alliance seventh among European banks.

Based on clients' deposits of Ecu53bn and banks' deposits of Ecu44bn, the alliance is Europe's sixth largest bank, the statement said. Combined capital and reserves amounted to Ecu3.3bn and subordinated loans to Ecu1.7bn.

Loans to the private sector

BBC Brown Boveri to seek acquisitions

By Our Financial Staff

BBC BROWN BOVERI, the Swiss co-owner with Sweden's Asea of the combined Asea Brown Boveri (ABB) engineering and machinery group, disclosed on Wednesday that it is seeking acquisitions.

The Swiss parent, which merged its industrial operations with those of Asea as of January 1, said in its company newsletter that it plans to use the dividend income from the ABB operations to acquire stakes in companies.

Mr. Fritz Lenthwiler, BBC chairman, wrote in the newsletter that BBC would remain a financial holding company but may acquire holdings, even majority stakes, in other concerns.

He said the services sector would be BBC's first choice, and BBC could take equity positions in service companies that ABB might divest in the future.

Cigahotels reports profits of £6bn

CIGAHOTELS, the Milan-based hotels group, yesterday reported flat profits of £6bn (\$4.38m) for the six months ended April 30, unchanged from the first half of the previous business year, writes Our Financial Staff.

Sales amounted to £114.4bn, compared with £102.9bn, up from £98.9bn. Investments totalled £114.2bn, up from £98.9bn. Cigahotels SpA said its board approved a £120.5bn convertible bond issue.

In accordance with the provisions of the Notes, notice is hereby given that the Rate of Interest has been fixed at 8.36575% for the Interest Determination Period 29th July, 1988 to 31st August, 1988. Interest accrued for this Determination Period and payable 30th November, 1988 will amount to U.S.\$76.71 per U.S.\$10,000 Note and U.S.\$1,917.84 per U.S.\$250,000 Note.

This announcement appears as a matter of record only.

May, 1988

INVESTCORP**Arabian Investment Banking Corporation (Investcorp) E.C.****U.S. \$120,000,000****Multiple Option Facility**

Lead Managers

Bank of Tokyo Capital Markets Group

B.S.E.F.E. - Banque de la Societe Financiere Europeenne

Credit Suisse

Deutsche Bank AG

Girozentrale und Bank der österreichischen Sparkassen Aktiengesellschaft

Kuwait Foreign Trading Contracting & Investment Co. (S.A.K.)

Manufacturers Hanover Limited

Societe Generale

National Westminster Bank Group

Managers

The Daiwa Bank, Limited

Arab Bank Limited

The Bank of Kuwait and the Middle East, KSC

Riyad Bank

The Gulf Bank K.S.C.

Indosuez Group

London Branch

Berliner Bank AG

Kuwait Real Estate Bank K.S.C.

London Branch

Co-Managers

Arab International Bank, Bahrain

Arab Banking Corporation (ABC)

Bankers Trust Company

B.S.E.F.E. - Banque de la Societe Financiere Europeenne

The Chase Manhattan Bank, N.A. Credit Suisse Deutsche Bank AG London Branch

Girozentrale und Bank der österreichischen Sparkassen Aktiengesellschaft

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National Westminster Bank Group Societe Generale Arab Bank Limited - OBU

The Bank of Kuwait and the Middle East, KSC

Riyad Bank Al Bank Al Saudi Al Fransi

Berliner Bank AG Kuwait Real Estate Bank K.S.C.

Alahli Bank of Kuwait K.S.C. Arab International Bank, Bahrain

Credit du Nord Lloyds Bank Plc Melita Bank International Ltd.

The Mitsubishi Bank, Limited Banque Indosuez (OBU)

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Tender Panel Members

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Bank of Tokyo Capital Markets Group

Berliner Bank AG Chase Investment Bank Credit du Nord Credit Suisse

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Societe Generale

National Westminster Bank Group

National Westminster Bank Group

Tender Panel Agent

Bankers Trust Company

Facility Agent

Issuing & Paying Agent

The Republic of Italy

Ente Nazionale per l'Energia Elettrica

U.S.\$300,000,000**Floating Rate Notes Due 2005***Unconditionally guaranteed as to payment of principal and interest by**The Republic of Italy**In accordance with the provisions of the Notes, notice is hereby given that the Rate of Interest has been fixed at**8.36575% for the Interest Determination Period 29th July, 1988**to 31st August, 1988. Interest accrued for this**Determination Period and payable 30th November, 1988 will amount to**U.S.\$76.71 per U.S.\$10,000 Note and**U.S.\$1,917.84 per U.S.\$250,000 Note.**Agent Bank:**Morgan Guaranty Trust Company of New York**London Branch***Iswimer****U.S. \$100,000,000***Floating Rate Participation Certificates Due 1992**issued by Morgan Guaranty GmbH for the purpose of**making a loan**Istituto per lo Sviluppo Economico**dell'Italia Meridionale**(a statutory body of the Republic of Italy incorporated under**Law No. 298 of April 11, 1951)**In accordance with the terms and conditions of the**Certificates, the rate of interest for the Interest Determination**Period 29th July, 1988 to 31st August, 1988 has**been fixed at 8.36%. Interest accrued for*

INTL. CAPITAL MARKETS AND COMPANIES

Japanese brokers halt equity warrant deals

By Dominique Jackson

THREE major Japanese securities houses have declared a moratorium on the issue of Japanese corporate equity warrant deals in a bid to restore order and price health to the sector's crowded primary market.

The move comes after more than two weeks of virtual crisis, triggered by a combination of relentless new issues and the advent of many second tier companies to the sector. Grey market prices for practically every new deal, blue chip stocks included, fell to discounts far below issue price and trading practices deteriorated simultaneously.

The Japanese Ministry of Finance has expressed its concern about the orderly conduct of the market and the securities houses who lead manage the equity warrant issues have now been obliged to come to a gentleman's agreement to postpone new deals for the next two weeks.

Under the arrangement, only companies whose needs are extremely pressing or who are due to raise funds on the domestic market at the same time as expected to come to the sector if they do, will be effectively penalised by the high coupons now current for these deals.

No new issues were launched today although several deals from the last few weeks were fixed with coupons above the level originally indicated.

Deutsche Bank agrees on swap deal

By Haig Simonian

THE World Bank and West Germany's Deutsche Bank have agreed on a new "contingent swap facility" allowing the World Bank to substantially diversify its range of swap partners.

Under the scheme, which has taken 18 months to negotiate, Deutsche Bank will either compensate or stand in for a counterparty to a currency swap with the World Bank should it default.

As a result, the World Bank

will be able to deal with less highly rated organisations or the large number of high quality European corporations which have never had their debt rated. Under its existing rules, the World Bank can only enter into deals with triple-A rated counterparties.

The venture covers maturities of up to 10 years and a variety of European currencies. It also allows for a swap to be taken over by Deutsche Bank rather than just compensated.

Deutsche Bank, which is given an exclusive three-year right to the facility, can decide on a case-by-case basis whether a given World Bank swap can be included under the scheme. However, it has emphasised that the facility would be available for swaps with the World Bank initiated by any other financial institutions.

Mitsubishi Finance International brought a \$76m five-year deal at 9% per cent and 101½ for Interfinancie Credit National which is not expected to trade widely.

Late in the day, Credit Suisse First Boston brought a similarly pre-placed deal for Saga Petroleum, another \$75m five-year issue at 10% per cent and 100%.

In West Germany, Westdeutsche Landesbank brought a DM150m five-year equity warrant deal at 1 per cent and 100% for Sunmico Textile, backed by Fuji Bank.

Other recent deals include:

• A \$100m five-year deal at 9% per cent and 101½ for Belgian Telephone, backed by the Bank of America.

• A \$100m five-year deal at 9% per cent and 101½ for Canadian Pulp & Paper.

• A \$100m five-year deal at 9% per cent and 101½ for C.C.C.E.F.T. (UK).

• A \$100m five-year deal at 9% per cent and 101½ for Credit National.

• A \$100m five-year deal at 9% per cent and 101½ for Credit Suisse.

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• A \$100m five-year deal at 9% per cent and 101½ for Deutsche Bank.

• A \$100m five-year deal at 9% per cent and 101½ for Dresdner Bank.

• A \$100m five-year deal at 9% per cent and 101½ for E.I.B.

• A \$100m five-year deal at 9% per cent and 101½ for Elektro-Danone.

• A \$100m five-year deal at 9% per cent and 101½ for Flottman.

• A \$100m five-year deal at 9% per cent and 101½ for Ford Motor.

• A \$100m five-year deal at 9% per cent and 101½ for Gen Elec Credit.

• A \$100m five-year deal at 9% per cent and 101½ for G.M.

• A \$100m five-year deal at 9% per cent and 101½ for Heitf.

• A \$100m five-year deal at 9% per cent and 101½ for Henschel.

• A \$100m five-year deal at 9% per cent and 101½ for Italy Pw.

• A \$100m five-year deal at 9% per cent and 101½ for L.T.C.B. of Japan.

• A \$100m five-year deal at 9% per cent and 101½ for Merck.

• A \$100m five-year deal at 9% per cent and 101½ for Montedison.

• A \$100m five-year deal at 9% per cent and 101½ for Norway Pw.

• A \$100m five-year deal at 9% per cent and 101½ for Peugeot.

• A \$100m five-year deal at 9% per cent and 101½ for Pirelli.

• A \$100m five-year deal at 9% per cent and 101½ for Procter & Gamble.

• A \$100m five-year deal at 9% per cent and 101½ for Quatex Alloys.

• A \$100m five-year deal at 9% per cent and 101½ for Sanofi.

• A \$100m five-year deal at 9% per cent and 101½ for Sasebo Steel.

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UK COMPANY NEWS

F&H to dispose of controls business and re-prices cash call at £2.29m

F&H Group, the troubled controls group which was forced to abandon a rights issue in May, yesterday unveiled a sweeping reorganisation, involving the disposal of its main controls business and a re-priced cash call on shareholders, writes Clay Harris.

The crisis facing F&H was underlined by results for the year to April 30, also announced yesterday. On turnover of £5.76m, pre-tax losses soared to £5m, compared with a £799,000 profit in the previous nine-month period to April 1987.

By the year-end, the group had net liabilities of £1.45m, one reason for yesterday's one-for-one rights issue at 10p to raise £2.29m. The share price is suspended at 52p.

Harland Simon, process control equipment manufacturer, is paying a nominal 51 for F&H's controls business, but it will also assume £1.1m of liabilities.

F&H's balance sheet will also be helped by Si's agreement to convert £1.5m of loans into equity.

F&H expects to end up with net assets of £2m after the exercise. It will retain three operating subsidiaries, a West German-based small process control business, T.R. Mira, the electrical contractor, and Amvelco, an assembler of electrical components for the motor industry.

The rights issue will be underwritten by Mr Bob Morton, who will become chief executive as well as chairman. His intention is to end up with 25 to 30 per cent of the shares in the hands of his family interest.

The previous £2.6m rights issue, three-for-two at 20p, was abruptly cancelled when management accounts revealed the much worse than expected operating outlook.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres -	Total for	Total last
			ponding	year	year
Aeronson Bros.	Int. 1.8	Oct 10	1.7	-	5.45
Abbey	fin 3.54*		2.67*	6	4.33*
Astra Holdings	Int. 0.52	Oct	0.25	0.87	0.26*
Barclays	Int. 101	Oct 12	10.55	-	23.25*
Broad Street 5	fin 1.111	Sept 7	1.1	1.1	1.1
Dalepac Foods	Int. 1.8	Oct 1	1.8	2.7	2.7
Derby Trust	Int. 5.06		4.75	-	10.85
Ewart	Int. 1.2		1*	1.7	1.42*
Formuline	Int. 5.6		4.95	8.1	7.19
GT Venture Inv	Int. 1		-	1	1
H&S Smith	Int. 1.55		1.23*	-	3.98*
ICI	Int. 18		16	-	41
Jacobs (John D)	Int. 1.5		1.5	-	4.2
Jersey Gen Inv	fin 10.55		10.25	17.25	16
Kode	Int. 5	Aug 26	5	-	15.5
Lex Service	Int. 5.4	Sept 15	4.5	-	11.7
North Scot Inv	Int. 0.25		0.25	0.25	0.25
Raglan Property	Int. 0.13		0.11	0.13	0.11
Romney Trust	Int. 2		1.65	-	4
St Andrew Trust	Int. 1.8		1.5	-	4.2
Webb (Joseph)	Int. 0.67	Oct 6	0.47	1	0.6

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. **On capital increased by rights and/or acquisition issues. \$US stock. \$B\$ quoted stock. #7th/3rd market. #Irish currency. #Equivalent to 5p and 19.90 after adjusting for rights issue. #For 15 months. ##For 17 months. \$Gross throughout.

BOARD MEETINGS

The following companies have notified dates of board meetings to all shareholders. Such meetings are usually held for the purpose of considering dividends. Official notifications are not always given when the dividends are meted out or finalised and the sub-dividends shown below are based mainly on last year's timetables.

INTERIM	FUTURE DATES
BSI Int'l	Aug 10
Gen Acc Fr Lite Ass	Aug 10
Guardian Royal Exchange	Aug 10
Inv 1st Of Chelmsford	Aug 5
Inv 1st Of Luton	Aug 5
Royal Dutch Petroleum	Aug 11
Shell Tpl & Trading	Aug 11
Unilever	Aug 24
Vicarous	Aug 24
WEC	Aug 10
CGT	Aug 4
Comco	Aug 5
Flame Industr	Aug 5
Fin Industr	Aug 17
Franschhoek For East Fund	Aug 26
Humphreys Inv'l	Aug 9
Investment Corp	Aug 9
Saville Gordon	Aug 1

Pavion shares suspended

By Clare Pearson

Pavion International, troubled UK cosmetics manufacturer and marketer with a USM quote, yesterday failed to report on the year to end-February as scheduled, and said the results would not be out till next Friday. The shares were suspended at 8.75p.

At the interim stage in December, profits to August 31 fell from £261,000 to £190,000 on turnover of £13.44m (£12.62m). Those results were sharply down on the first half of 1986, when Pavion made £1.72m.

Mr Trevor Chinn, chairman, said it was highly likely the UK car market would reach a record level in 1988. On Lex's joint venture with US car dealer Campbell - making it the first UK car distributor to try to enter that market - he said the approval of most US manufacturers had been won. The interim is 5.4p (4.5p).

• COMMENT

Though it would not have seemed likely last October, registrations of cars in the UK

have been 10 per cent higher in the first six months compared with the same period last year - hence Lex's success. Meanwhile, in spite of the competitive US market, Lex's operations are currently improving from a very low base. But next year's performance will still hinge crucially on which way the world economy goes (however many charts Mr Chinn produces to

support the argument that the UK is the best EC country, demographically-speaking, to be selling cars in, because of the high rate of household formation). A median £20m pre-tax in 1989 was forecast yesterday, which is likely to be accompanied by a higher tax charge. This year is easier about £72m is in prospect, giving a fairly modest p/e ratio of around 8.

GT VENTURE Investment Company: net asset value at the end of the period from September 18 1987 to June 30 1988 stood at 102.5p. At September 18 1987 the figure was 96.8p. Gross revenue £411,000. Profit before tax £180,000.

HORSTMANN GROUP, maker of test and measurement instruments, made turnover of £21.7m (£20.0m) in year ended March 31 1988 and pre-tax profit £1.18m (£1.16m). Final dividend 5.5p, makes a total of 8.5p.

Ewart: Pre-tax profits £309,775 (£200,752) for year to April 30 1988. Final dividend 1.2p (1p adjusted) for a 1.7p (1.2p adjusted) total.

• COMMENT

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SALES BREAK THE \$5 BILLION BARRIER

Dr. Anthony J.F. O'Reilly-Ch

President and Chief Ex

Sales	\$5,244,230,000
Pre-Tax Profits	\$622,573,000
After Tax Profits	\$386,014,000
Net earnings up: 14%	
Earnings per share up: 17.8%	

beyond. Fully 70% of our worldwide sales now comes from products that do not bear the Heinz brand, a fact that we have started to emphasise in our marketing and share alike just 25 years ago.

Our established brands continue to contribute to our growth, earnings and cash flow. We have diversified our product range, and 6.6% of sales, or £3.5 billion, triple the investment over a decade ago. Most important, half of our consolidated sales comes from products that are the number-one brands in their respective national categories. This is due in no small measure, to our significantly increased expenditures for marketing support coupled with competitive price and profit margin advantages made possible by low cost operator status at home and abroad.

Heinz's gross profits have practically tripled over the past decade. As a percentage of net sales, our gross profit margin this past year stood at 39.5%, an exemplary contrast with the 32.7% recorded in 1978.

During this same interval, our market capitalization grew more than eightfold. Within the past five years, investors who held Heinz company stock and reinvested their dividends saw their shares almost quadruple in value.

The rapid pace of change and expansion during Fiscal 1988 makes even the recent past seem almost static by comparison. Furthermore, it has generated a momentum of performance that will carry us vigorously into the future.

Heinz has joined entry to emerging economies on opposite sides of the globe by purchasing companies of prior performance. We expect to move in step with the rapid pace of growth, particularly in the People's Republic of China and South Korea. The projected lowering of trade barriers within the European Community opens the doors to a market of more than 320 million people. This change, combined with recent acquisitions in Spain and Portugal, means that the Iberian Peninsula has become a dynamic internal market for our tomato and fish products and a low cost operator base for export to all of Europe and

the world.

With success as our tradition and our goal, we look upon this productive year with satisfaction and impatience. The past must now serve as prelude to even greater achievement.

Excerpts from the statement to shareholders of H.J. Heinz Company by the Chairman, President and Chief Executive, Dr. A.J.P. O'Reilly, for the year to April 27th, 1988.

Strong interim results herald faster profit growth in second half

Barclays moves ahead to £618m

By David Barchard

BARCLAYS, the second largest of the big four British clearing banks, yesterday reported pre-tax profits of £618m for the six months to the end of June.

The result was 17 per cent above Barclays' profits of £530m a year ago, which were turned into losses of £20m by provisions in respect of bad and doubtful debts to developing countries. This year the bank made no exceptional provisions for Third World debt.

Nominal provisions for bad and doubtful debts were £132m (£177m).

The results were greeted as a strong performance by bank analysts, holding the prospect of more rapid profit growth in the second half of the year when Barclays should benefit from higher interest rates and the £21m rights issue of early April.

Barclays de Zoete Wedd, the group's investment arm, reported profits of £27m, compared to £25m last time. Results in UK and international equities were described as satisfactory despite the low volumes in the markets.

The bank has invested a total of £345m in BZW and no extra injection of capital is planned, apart from profit retention.

Domestic banking made a profit of £286m (£257m), much of the surplus because of the

European operations restructured

see Mr Pierre de Lalande as chief executive of Barclays Bank SA in France.

Barclays already operates in 11 out of 12 member countries of the EC and believes that it has good marketing opportunities in Europe at a time when competition in the UK markets is getting stronger.

It believes that there is a significant amount of business to be gained from being identified as the first British bank with a major presence in Europe.

Its European business will be run from its UK head office in Lombard Street, London.

sales and investment management business since the October stock market crash, but profits on insurance were up.

Barclays' mortgage lending has grown from £4.8bn at the beginning of this year to stand at £6.25bn with a further £1bn of bridging loans.

Mr Terry Jones, currently international trade director, will head the bank's corporate services in Europe, while Mr Tim Ward, of Barclays Central Retail Services, will be in charge of retail operations.

In addition, there have been major changes at the top of Barclays' subsidiaries in France and Germany and Mr Jacques Rambosson is to suc-

Stronger demand for chemicals takes ICI up to £783m

By Ray Bushford

THE CONTINUING world-wide upturn in demand for basic chemicals provided the impetus for a 13 per cent rise in Imperial Chemical Industries pre-tax profits in the six months to June 30.

The industry recovery, which analysts believe will continue for at least the next six months, allowed ICI to comfortably ride out the impact of adverse currency movements as profits reached a record £783m pre-tax, against £691m during the previous first half.

The second quarter pre-tax profit exceeded £400m for the first time to reach £223m. City forecasts had ranged between £200m and £215m.

The company's exposure to fluctuations in the dollar and to a lesser extent the deutsche mark, and the relative weakness of these currencies against sterling had their most marked effect on the consumer and specialty products division where trading profit fell from £304m to £293m.

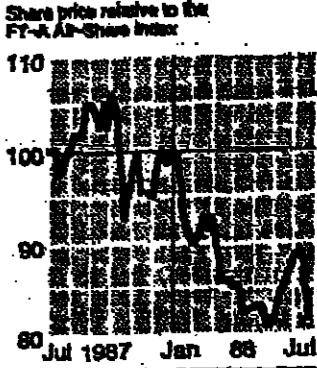
The dollar declined 12 per cent against sterling and the mark by 6 per cent during the period under review. The exchange rate factor is estimated to have cost the company £75m in pre-tax earnings.

Turnover advanced by 5 per cent from £5.57m to £5.87m. Directors said the adverse currency movements reduced the turnover by 9 per cent. Sales volume rose 11 per cent, with one-third of this coming through acquisitions.

In spite of the downturn in the consumer and specialty products division, directors said it showed an underlying strength. Key pharmaceutical

ICI

Share price relative to the FT-30A Share Index



UK COMPANY NEWS

P&O tops cruise market with \$210m buy

By Kevin Brown,
Transport Correspondent

PENINSULAR AND Oriental Steam Navigation (P&O) yesterday re-established itself as the world's largest cruise ship operator by buying Sitmar Cruises of the US for \$210m (£11.8m).

Sitmar operates four ships in the quality sector of the North American cruise market, in which P&O operates five ships through its Princess Cruises subsidiary.

In addition, Sitmar has three high-quality ships on order at prices believed to be substantially below the levels now being quoted by shipyards.

With the inclusion of the liner SS Canberra, which is operated separately from the Princess fleet, P&O now controls 11 per cent of the world cruise market. P&O's market share should increase to just over 13 per cent by 1991, when the three ships on order will be in service.

The deal means that P&O returns to the top of the cruise shipping league ahead of Royal Caribbean Cruise Line and Carnival Cruises, which overtook it in terms of both ships and berths in the early 1980s.

Mr Jeffrey Sterling, chairman of P&O, said the group had been studying the fast-growing cruise market for three years. P&O is believed to have had talks with ECL and Holland America line before agreeing terms with Mr Lester Crown, the main shareholder in Sitmar.

Mr Crown will retain an interest in the merged group through the Vlasov family trust, which has agreed to take \$10m in P&O deferred stock in lieu of cash as part of the consideration for its interests in Sitmar.

Mr Jeffrey declined to forecast the impact of the acquisition on P&O's profits from cruise operations, which were believed to be around £20m last year.

However, he said the group would have £600m invested in cruise shipping by 1991, and pointed out that ECL and Carnival are able to achieve a return on capital of between 25 and 30 per cent.

"In one fell swoop, we have taken out an excellent competitor, and acquired some very good ships as well," Mr Jeffrey said.

Digitalis in the Caribbean cruise market, which is centred on Miami, Florida, is growing at around 11 per cent a year, compared to growth in cruise ship capacity of between 7 and 8 per cent.

Marley makes US acquisition

By Andrew Taylor,
Construction Correspondent

Marley, the building materials group, has agreed to acquire Webster Brick, a US brick manufacturer.

The purchase price will be worth \$16m (£9.3m) plus the value of the company's stock which will be agreed when the deal closes. This is expected to be early in August.

Marley has agreed to pay \$8m of the purchase price in cash with the balance in loan notes in five equal annual instalments. Webster manufactures bricks in Roanoke and Orange County, Virginia. Marley already carries out brick manufacturing in the US through General Shale Products Corporation.

Buy-out of clothing side nets £93.5m for Coloroll

By Alice Rawsthorn

COLOROLL, the ambitious home furnishings concern, has sold the cloth and clothing companies it acquired in its bid for the John Crowther Group to a management team for £93.5m.

Coloroll announced its intention of selling the cloth and clothing companies, which are not compatible with its home furnishings activities, when it unveiled its £207m bid for Crowther in April.

Mr Eric Kirby, deputy chairman, said Coloroll had received "a great deal of interest" in the companies. The management team - led by Mr David Suddens, who joined Crowther last autumn - was, however, the only prospective purchaser for all the businesses.

Originally Mr Trevor Barker, former chairman of Crowther, had planned to mount a rival buy-out. But he withdrew because of the controversy that clouded the bid for Crowther.

Coloroll, which was advised on the sale by Samuel Mangan, expects to raise an additional £13m from the sale of a Swiss carpet tile business, the McCall's paper pattern company in the US, and property.

The disposals should reduce the level of its gearing to between 30 and 40 per cent by the end of its financial year in March.

The Coloroll share price rose by 4p to 185p on the announcement yesterday.

Most of Crowther's clothing companies, which include Speedo swimwear and the WW distribution business, were bought in a flurry of acquisitions between 1985 and 1986.

Together with the original John Crowther cloth mill, they

made pre-tax profits of £1m on turnover of £185m last year.

Mr Suddens said the restructuring of the businesses, which employ 5,000 people, was still incomplete.

Moreover, the companies had suffered in recent months - "but not disastrously" - because of the uncertainty created by the takeover bid.

His management team has raised an additional £9.5m from Charterhouse Development Capital which arranged the buy-out, to provide working capital and investment.

Coloroll is retaining a 5 per cent holding, for £1.5m, in the new clothing group.

Mr Suddens has not decided upon a new name. "I do not suppose the City would cry 'whoopee' if a company called John Crowther returned to the stock market," he said.

de Savary buys TV-am stake

By Raymond Snoddy and Nikki Tait

MR PETER de Savary's LandLeisure yesterday acquired nearly 10 per cent of TV-am, the commercial breakfast television station, in a deal worth £11.5m or 180p a share.

Mr Ian Irvine, chairman of TV-am, said yesterday that the board intended to invite Mr de Savary, who is deputy chairman of LandLeisure, to become a director of the TV company.

"He will bring to us an additional dimension of leisure and related experience" and help TV-am meet one of its ambitions of widening the base of its activity, Mr Irvine said.

Mr de Savary suggested there was scope for joint ventures, although he declined to specify what these might be. "I

couldn't contribute to the technical side of the TV station," he said, "but we will be looking at ways of combining their liquidity and our expertise."

The 6.25m shares bought by Mr de Savary are part of the 24.9 per cent stake in TV-am sold by Mr Kerry Packer to Mr Alan Bond's Bond Media (UK) in February last year.

The Independent Broadcasting Authority, which has approved the LandLeisure acquisition, decided at that time that Mr Bond would only have voting rights for 10 per cent of his stake. A final deadline of August 20 was set for Mr Bond to take his stake in TV-am below 20 per cent.

LandLeisure was in the limelight at the start of this week when its shares were suspended due to merger talks with West Country brewer, J. A. Devenish. However, the talks have proved abortive. Yesterday, the shares dropped 18p to 40p.

The other major shareholders in TV-am are Aitken Telecommunications, with 10 per cent, and Quantum Overseas with about 5 per cent.

Yesterday's statement implying that TV-am was planning to widen its activities surprised industry observers.

The IBA has recently warned TV-am that it wants to see improvements to its programmes.

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THIS ANNOUNCEMENT APPEARS AS A MATTER OF RECORD ONLY

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OF
THE BRICOM GROUP**
**SYNDICATED MEZZANINE
LOAN FACILITIES OF £30,000,000**
**LED, MANAGED
AND ARRANGED BY 3i PLC**

UNDERWRITER 3i PLC

Participants

3i plc

Bank of Boston Limited

Barclays de Zoete Wedd Limited
II-BANK AL-SAUDI M-MAMI LIMITED

CIN Venture Managers Limited

Hill Samuel & Co Limited

Kleinwort Benson Limited

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Mortgage Backed Floating Rate Notes 2018

The rate of interest for the three month period 27th July, 1988 to 27th October, 1988 has been fixed at 11.2625 per cent per annum. Coupon No. 1 will therefore be payable on 27th October, 1988 at £2,631.01 per coupon.

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Bruden House
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EC4P 4BYFINANCIAL TIMES
EUROPE'S BUSINESS NEWSPAPER

Brian Winterflood

**The name may have changed but
the people remain the same.**



Dave Macnamara



Graham Russell



Julian Palfreyman



THE TEAM

Left Picture: S. Myers, P. Collins, S. McIver-Sanders, S. Crooks, K. Thompson.

Right Picture: R. Meany, I. Throssell, R. Bole, S. Pearce, S. Langman.

We're back! We're keen!**and we'll be open for business on 1st August**Market Makers in all USM and 3rd Market Stocks, selected smaller companies and 5352 Stocks.
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SECURITIES
LIMITED**All enquiries to Brian Winterflood (front office) or David Codd (back office)
Knollys House 47 Mark Lane London EC3R 7QH
A subsidiary of The Union Discount Company of London, p.l.c.**UK COMPANY NEWS****Millicom says Racal float
may cost holders £560m**

By Hugo Dixon

SHAREHOLDERS IN Racal stand to lose £560m if they back the management's scheme for floating off 20 per cent of the telecommunications subsidiary, according to Millicom.com, one of Racal's largest shareholders.

In a circular sent to shareholders yesterday, Millicom.com has for the first time produced figures to back up its contention that shareholders would be better off backing its rival scheme for a complete demerger of the UK electronics company and Racal Telecommunications Group.

Millicom.com's argument rests on what it calls the "double dis-

count" that will occur if there is only a partial demerger.

The first discount, it maintains, will occur because RTG will be a controlled company. As a result, it will be bid-proof and less likely to be run for the benefit of shareholders, limiting its stock market value.

The second discount, Millicom.com says, will occur because the full market value of the RTG will not be reflected in Racal's share price.

Millicom.com argues that the first discount will amount to 18 per cent and the second to 15 per cent. This, it says, will mean the shareholders' assets will be worth £2.04bn under

the management's scheme instead of £2.5bn under its proposals.

Racal said it disagreed with Millicom.com's arguments, but it would not be answering them in detail until next week.

There seems, however, to be some movement in Millicom.com's favour. Mr Chris Tucker, an analyst at Kleinwort Griveau, said Millicom.com's proposals were better than the management's.

"The management has put together a structure that means we shareholders get whacked twice," Mr Shelly Bryan, Millicom.com's chairman, said.

Dalepak maintains market share as profits fall to £1.1m

By Nikki Tait

DALEPAK FOODS yesterday unveiled a 26 per cent fall in pre-year profits to £1.1m.

The Yorkshire-based company is the biggest supplier to the British grillsteak market.

Dalepak, which reported a 42 per cent profit downturn at the interim stage, said the year had been difficult for the industry, although it retained its 50 per cent brand share.

"On the one hand, the grillsteak market stabilised at a retail value of £78m, after the past ten years' growth. On the other, it suffered from a 38 per cent increase in manufactured beef prices in the first half.

Dalepak's position was exasperated by production overheads geared higher sales.

The November price increase and some cost-cutting helped in the second half, but sales were still lower than expected.

Turnover in the 12 months to end-April was £18.6m (£18.2m).

Apart from the grillsteak operations, difficulties faced by the Budget Gourmet and Farmhouse frozen ready-meal ranges have led Dalepak to limit this business to products which can be produced in the grillsteak factory. The ready-meal factory will be used for chilled food production instead.

Earnings per share dropped from 8.67p to 8.5p. The unchanged final dividend of

16p makes 2.7p for the year.

• **COMMENT**
Mr Chris Fury - the ex-Northern Foods man who slipped into the chief executive's chair at Dalepak in November - clearly had no illusions about the problems of a one-product company. But seeing where Dalepak should go, and getting it there speedily, are different things. New products like vegetable grillsteaks have apparently been well received, and the switch to chilled ready meals seems sensible. However, the fact remains that at least four-fifths of total group sales in the current year will probably come from the company's traditional meat-based product. Meat prices remain firm, and Dalepak's 5 per cent price rise last year has met with undercutting by rivals and consequent volume loss.

Further acquisitions, following frozen pie business Favers, could help, except that the potential scale of purchases is somewhat limited by a 40 per cent gearing level at the year-end, and the reluctance of directors to dilute their controlling interest. With brokers edging forecasts down to £1.35m (down 6p to close at 41p) are on a prospective multiple of just over 10. That looks justifiably cautious.

Dukeminister comes to market valued at £53.8m

By Paul Cheeseright, Property Correspondent

DUKEMINISTER, the property investment and trading company controlled by the Sholet family, yesterday came to the market to raise a total of £33.4m via a share placing of 27.9 per cent of its equity and a convertible preference issue.

Barclays de Zoete Wedd, which arranged the placing of 20m ordinary shares at a price of 75p each, showing a 14.9 per cent discount to their net asset value, said that there was excess demand for the shares. Trading starts next Thursday.

The ease of the placing provides further evidence of the market's sentiment in favour of property companies specialising in the accumulation of assets rather than development profits.

The share placing raises a net £13.5m for Dukeminister and gives the company a market capitalisation of £53.8m. A further £24.5m is coming from the convertible preference

shares issue, to which American Express has subscribed £19.9m and the Sholet family £1.5m.

These new funds come on top of a recent injection of £5m into Dukeminister's equity by the Sholet family.

Dukeminister, which has absorbed the interests of NH Finance, another Sholet vehicle, has a property portfolio worth £41.2m. The majority of the properties are in London and the south-east. Of the total, £33.3m worth are trading properties.

Dukeminister has a rent roll of £3.28m a year, expected to rise to £11m over the next three years. About 40 per cent of the portfolio is in retail property, 40 per cent in offices and 15 per cent in industrial premises.

In 1987, Dukeminister had pre-tax profits of £2.7m and in the five months to May 1988, pre-tax profits were £1.67m.

The mild winter led to con-

stant high demand for products of the fabrication side in the period: therefore, the disparity charge of £133,000. The group is now withdrawing from the US, resulting in an extraordinary debit of £56,000.

By contrast the UK business increased its operating profits by 11 per cent to £2.14m.

Ketson makes agreed bid for Moorgate Grp

By Vanessa Houlder

KETSON, communications group formed last year from the Gianfield Lawrence property and motor dealer, yesterday announced an agreed bid for Moorgate Group, USM quoted financial marketing company.

And Moorgate announced that as a result of Crash-induced losses in the US its pre-tax profits for 1987 fell from £22.28m to £16.28m.

Turnover increased to £23.6m (£11.2m). Earnings per share fell from 7.3p to 2.5p. The dividend has been passed after paying £1.825p for 1986.

The offer of five shares for four Moorgate values Moorgate at about £7.7m, after Ketson's share price rose 3p to 55p yesterday. The combined group would have a market capitalisation of about £17m. About 42 per cent of Moorgate shareholders have undertaken to accept the offer.

Mr Jeremy Bond, chairman of Moorgate, said the merger would cut Moorgate's exposure to a single market sector.

The US operation made an operating loss of £221,000, following the Crash and in addition was responsible for interest charges of £133,000. The group is now withdrawing from the US, resulting in an extraordinary debit of £56,000.

By contrast the UK business increased its operating profits by 11 per cent to £2.14m.

Boots chief under fire

By Maggie Urry

MR ROBERT GUNN, chairman of Boots, the retail chemist and pharmaceutical group, faced tough questioning from shareholders at yesterday's annual meeting. He was asked why his salary had risen by 19 per cent last year when earnings per share were only 4.8 per cent higher.

Mr Gunn said that all Boots' senior executives' salaries had been reviewed to bring them in line with earnings in the industry. Directors' salaries are set by a remuneration committee, largely made up of non-executives.

Mr Gunn told shareholders that group sales were up by 4.5 per cent in the first quarter of the current year, which began on April 1. He said that although the sales increase was modest, profitability had risen. Boots' shares fell 4p to 21.8p yesterday.

The retail division had seen a first quarter sales rise of 5.4 per cent, adding to evidence that some retailers have suffered a poor summer. The period compared with a strong first quarter the previous year.

Boots is also feeling the effect of poor sales of durable goods, and the withdrawal of some lines such as pet foods which had been unprofitable.

The group has nearly finished negotiations to sell or close its stores in Western Canada, with completion expected by the end of August.

NEWS DIGEST**JOSEPH WEBB****Profit doubled at £1.02m**

Joseph Webb, the West Midlands group with interests

Société Nationale des Chemins de Fer Français**£57,000,000 Guaranteed Floating Rate Notes 1993**

(redeemable at the holder's option in 1990 unconditionally guaranteed as to payment of principal and interest, by

The Republic of France

In accordance with the provisions of the Notes, notice is hereby given that, for the three month period 27th July, 1988 to 27th October, 1988, the Notes will bear interest at the rate of 11 1/4 per cent per annum. Coupon No. 20 will therefore be payable at the rate of £140.61 per coupon from 27th October, 1988.

S. G. Warburg & Co. Ltd.

Agent Bank

U.S. \$500,000,000 CITICORP (Incorporated in Delaware) Subordinated Floating Rate Notes Due January 30, 1998. Notice is hereby given that the Rate of Interest has been fixed at 12 1/4% and that the interest payable on the relevant Interest Payment Date after January 31, 1988 against Coupon No. 31 in respect of US\$10,000 nominal of the Notes will be US\$75.17.

July 29, 1988, London
By Citibank, N.A. (CSB Dept.), Agent Bank CITIBANK

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UK COMPANY NEWS

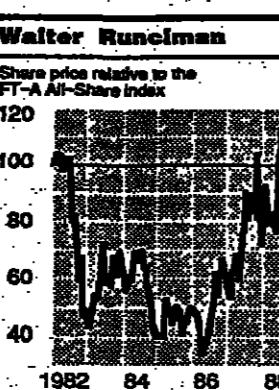
Telfos raises value of bid for Runciman to £31.6m

By Clay Morris

TELFOS HOLDINGS, the diversified engineering company, yesterday raised to £31.6m the value of its hostile takeover bid for Walter Runciman, the shipping, security and insurance group. The new terms are advance from £27.4m, per final unless a competing offer emerges.

Runciman is due to fire its final defensive salvo today, including a profit forecast for the current year and a dividend forecast for 1989. Last week, Runciman said it would pay at least 3.5p for this year, a 40 per cent rise over 1987.

Yesterday, Mr Garry Runciman, chairman, said Telfos's "marginal revision" still left the offer far short of an adequate recognition of his com-



pany's true value.

Runciman shares slipped 8p to 345p, below the 360p value of Telfos's paper offer, but still

above the increased cash alternative of 325p. Telfos closed 1p down at 172p.

For nearly four Runciman shares, Telfos is now offering a unit consisting of six ordinary shares, two 11 cent cumulative preference shares paying 9 per cent net, and one 11 cent revised terms drop a small cash element from the previous package and add the warrant and additional preference shares.

By Wednesday, Telfos had received acceptances for 0.56 per cent of Runciman's shares to add to the 24.58 per cent it owned before launching the bid. Mr Runciman yesterday said that this "insignificant acceptance level" demonstrated the inadequacy of the offer.

Broad Street profits decline

By Andrew Hill

BROAD STREET Group, public relations and communications undertaking, announced pre-tax profits of £555,000 for the 17-month period to March 31, 1988.

Despite the longer reporting period, profits were 42 per cent down on the £860,000 made in the year to October 31, 1986. However, the figures included provisions of £335,000 for bad debts and redundancy costs, taken above the line, offset by a £35,000 exceptional gain on investments.

Mr James Gulliver, who took over as chairman last December after buying a 10 per cent stake, said the directors' confidence in present trading was underlined by their recommendation of an unchanged 1.1p dividend for the year.

The group, which is quoted on the OSM, also announced the purchase of Lynne Franks, the consumer PR company, for an initial £2.6m to be funded

by a vendor placing of 6.4m ordinary shares. A further £23.194 share will be issued to raise £175,000 covering expenses.

Shares will be offered to existing holders on a one-for-five basis at the placing price of 45p each, against yesterday's unchanged closing price of 45p.

In the last five months of the 17-month period the group returned to profit, with £355,000, against losses of £355,000 in the preceding six months.

Earnings per share fell 52 per cent to 1.16p for the period (2.45p).

COMMENT

As yet, it is difficult to judge the effects on Broad Street of "Gulliverisation", as the company calls it. Compared with previous years

month by month fee income is apparently rising and the

Pearl pension business growth

By Eric Short

PEARL ASSURANCE Company sold more than five times the amount of pension business to the self-employed in the first six months of this year than in the corresponding period of last year - £10.38m of new annual premiums in the Ordinary branch in the first half of this year, from

COMPANY NEWS IN BRIEF

BOScombe PROPERTY: Pre-tax profits for year to March 31, 1988 were £105,887 (£124,387). Gross rental income £329,767 (£496,659). Earnings per share 8.59 (7.65p). No dividend (same).

DERBY TRUST: At June 30, net asset value 331p (330p at December 31, 1987) per capital share and 265p (264p) assuming full subscription of warrants. Net available income £897,520 (£561,250) for first half of 1988 and earnings per income share 6.058p (4.752p). Interim

dividend 5.058p (4.752p).

GOVETT FAR EAST Investments: net profit attributable to shareholders stood at £122,745 (£71,781) at the end of the six months to June 30. Gross revenue amounted to £2.49p. The interim dividend is 29 (1.69p) and a final of 3p is forecast.

ST ANDREW TRUST: reported net asset value of 223.6p at June 30, 1988 against 246.5p a year earlier. Earnings per share were 2.4p (1.96p) for the six months to the end of June and the interim dividend is being raised to 1.8p (1.5p).

ROMNEY TRUST: net asset value was 426.5p at the end of the six months to June 30, compared with 350.5p at December 31, 1987 and 437.7p at

the end of the six months to June 30, 1987. Gross revenue in latest period was £1.4m (£1.27m). After tax of £322,000 (£268,000) earnings came out at 2.49p (1.69p). The interim dividend is 29 (1.69p) and a final of 3p is forecast.

ST ANDREW TRUST: reported net asset value of 223.6p at June 30, 1988 against 246.5p a year earlier. Earnings per share were 2.4p (1.96p) for the six months to the end of June and the interim dividend is being raised to 1.8p (1.5p).

Abbey d.c.

PRELIMINARY RESULTS

Group profit for the year ended 30th April 1988

	1988 £'000	1987 £'000
TURNOVER	101,118	67,564
PROFIT BEFORE TAX	17,187	9,969
TAX	5,809	3,122
PROFIT AFTER TAX	11,378	6,847
DIVIDENDS	2,324	1,526
RETAINED PROFIT FOR THE YEAR	9,054	3,821
EPS (ADJUSTED)	30.77p	19.44p
GEARING	35%	84%

- Another Record Year in Housing and Plant Hire.
- Group Profits up 72% to IR£17.2 million.
- Investment in Land, Plant and New Depots continues.
- Progressive return to Commercial Property Development.
- Further substantial growth planned for current year.

Abbey House, 2 Southgate Road, Potters Bar, Herts.

The contents of this advertisement, for which the directors of Abbey plc are solely responsible, have been approved for the purposes of Section 27 of the Financial Services Act 1986, by Ernst & Young & Co, Chartered Accountants. Past performance is not necessarily an indication of future performance.

United Biscuits sells Spice Islands

By Christopher Parkes, Consumer Industries Editor

UNITED BISCUITS has agreed to sell its US subsidiary, Spice Islands, to Fleischmann Yeast, part of the Australian food group, Burns Philp.

The price was not disclosed, but UB said it compared favourably with the \$56m offered in January by McCormick, the leading US spices company.

That sale was called off two months ago after the Federal Trade Commission ruled that it could reduce competition in the spices trade. McCormick has about a 40 per cent share.

Fleischmann deals in yeast, dates and pineapples in the US and Canadian consumer markets.

The agreement in principle to sell to Fleischmann is expected to be finalised within a few weeks, when the statutory pre-market waiting period expires and final details have been worked out.

The disposal completes the liquidation of Speciality Brands, a groceries subsidiary which UB decided to sell because of disappointing results. Earlier disposals of olives and salad dressings subsidiaries to Campbell Foods raised \$150m.

Reorganisation costs hit Kode Int'l profits

Problems with a supplier and shortages of a main component were blamed by Kode International, computer equipment group, for a 10 per cent fall in turnover from £16.57m to £14.9m in the 24 weeks to June 17.

In addition the pre-tax figure was hit by costs of reorganisation in the information technology division of £217,000 leaving profits at £761,000, against £1.2m, a fall of 39 per cent.

However Mr Alan Brooker, chairman, said that margins had been substantially maintained and there was a large backlog of orders at the end of the period. He added that the equipment supply problems appeared to have ended but dynamic random access memory chips were still scarce.

Earnings worked through at 8.5p (14.5p) and the interim dividend is being maintained at 5p.

Good second half boosts Abbey result

Abbey, the Dublin-registered housebuilder and plant hire company operating throughout southern England, accelerated in the second half and finished the year with a 72 per cent advance in pre-tax profits.

In the period ended April 30, 1988, turnover rose 50 per cent from £67.55m to £101.12m (£85m), and taxable profit came to £17.2m (6.97m) after almost unchanged interest charges of £2.78m.

Earnings for the period rose to 30.77p (19.44p) and the final dividend is 3.8p, for a total of 6p (4.28p).

The directors said housebuilding and plant hire again produced record figures, and Abbey had re-entered the commercial property development market in a planned manner, which would not dilute the principal thrusts in the other two areas.

Gallaher surges 43% to near £117m

Strong improvements from both tobacco and non-tobacco operations enabled Gallaher, an American Brands subsidiary, to lift pre-tax profits by 43 per cent from £61.4m to £115.6m in the first half of 1988. Sales were 8 per cent higher at almost £2bn, against £1.89bn.

Trading profits from tobacco rose 30 per cent to £92.3m (£71.3m), while non-tobacco profits grew 48 per cent to £25.5m (£17.2m). Improvements were achieved by the optics, distribution and office products divisions, but there was a slight downturn on the housewares side.

The sale of the engineering division has almost been completed. Other disposals resulted in extraordinary credits this time of £6.4m.

Mr S.G. Cameron, the chairman, said the UK cigarette market had remained virtually static in the period, but Gallaher Tobacco had achieved a substantial share growth and increased volume.

1988 First Half Year Results**Record first half from ICI.**

Group profit before tax reached a new high of £783m in the first half of 1988, £92m (13%) above the first half of 1987. The advance resulted from strong growth in sales volume, firm margins and a good performance from former Stauffer agrochemical products. In the second quarter of 1988 profit exceeded £400m for the first time. The key figures with comparisons for the first half of 1987 are as follows:

Turnover	2nd Quarter		First Half		First Half		Profit Before Tax	Earnings per £ Ordinary Share
	1988	1987	1988	1987	1988	1987		
Turnover	2,930	5,867	5,569					
Profit on ordinary activities before taxation	425	783	691					
Earnings before extraordinary items per £ Ordinary Share	37.8p	69.3p	59.2p					
Interim dividend per £ Ordinary Share	-	18.0p	16.0p					
Year	11,123	1,312	113.6					

The tax charge for the first half of the year amounted to £290m (first half year 1987 £274m), comprising UK corporation tax of £11.7m (£12.3m) and £177m (£151m) in respect of overseas and related companies.

The Board has declared an interim dividend of £18.0 pence (eighteen point nought pence) per £1 Ordinary Share of the Company in respect of the year 1988 (1987 16.0 pence). This together with the imputed tax credit of 6.0 pence is equivalent to a gross dividend of 24.0 pence (1987 21.92 pence).

The interim dividend now declared will absorb £122m and is payable on 3 October 1988 to Ordinary Shareholders registered in the books of the Company on 22 August 1988.

As indicated in the 1987 Annual Report, it is currently expected that the second interim dividend will be paid in the last week of April 1989.

The unaudited trading results of the Group for the first half of 1988, with comparative figures for 1987, are as follows:

1987	First Half	Year	1988	
			£m	£m
1,354	2,732	1,360	Turnover United Kingdom	
4,215	8,391	4,507	Overseas	
5,569	11,123	5,867	Total	
688	1,297	777	Trading Profit	
231	464	239	After providing for:	
81	157	83	Depreciation	
78	142	77	Income from related companies	
			Net interest payable	</

FOREIGN EXCHANGES

Pound and dollar firm

STERLING ROSE to its best level for two years against the D-Mark yesterday, breaking through DM3.20, despite intervention by the Bank of England. The pound's sharp improvement started soon after the start of trading, and took many traders by surprise.

However, in an attempt to cover positions, investors quickly pushed the pound up to a high of DM3.225, although it failed to hold this level at the close.

Attractive interest rate differentials, and a growing perception that interest rates would have to be kept high to combat the inflationary effects of rising imports, presented a sufficiently attractive package to encourage further overseas investment in sterling.

A rise in the West German Lombard rate and repeated intervention by the Bank of England were sufficient to leave the pound below its best level at the close, but most traders were fairly optimistic that the pound could now test DM3.25. On Bank of England figures, sterling's exchange rate index finished at 76.8, down from 77.1 around lunchtime, but up from 76.6 at the opening and 76.5 on Wednesday.

Sterling rose to DM3.2125 from DM3.1925 and Yen22.00 compared with Yen22.25. Else-

where it finished at SF72.5700 and Y132.35 from Y131.35. It was also higher against the Swiss franc at SF71.5605 from SF71.5285 and FF71.2875 compared with FF71.3235. Com-

pared with FF71.3235, the

Bank of England figures, the dollar's exchange rate index rose 9.7 to 98.2.

In Frankfurt, the Bundesbank sold only a modest amount of dollars at the fixing and were not seen in the open market. In the near term, the D-Mark showed little change, finishing at FF71.3725 from DM3.2700 on Wednesday.

While comments from Alan Greenspan helped the dollar find firmer against the French franc, the latter shrugged off the effects of higher West German interest rates. French interest rates were left unchanged after the central bank's latest repurchase tender, and the authorities did not appear to be concerned by the widening of interest rate differentials, as long as the strength of the dollar kept the D-Mark subdued.

This tended to push the dollar firmer, but once again investors were wary about building up long positions for fear of further intervention by central banks.

The dollar closed at DM3.8455, up from DM1.8490

where it finished at SF72.5700 and Yen22.00 compared with SF72.5605 and Yen22.25. Else-

\$ IN NEW YORK

July 28	Last	Previous Close
1 cent	1.7280-1.7270	1.7280-1.7270
0.05 cent	0.37-0.365	0.37-0.365
1 cent	1.10-1.095	1.10-1.095
Forward premium and discounts apply to the US dollar		

POUND SPOT- FORWARD AGAINST THE POUND					
July 28	Buy	Sell	Buy	Sell	Buy
1 cent	1.2050-1.2055	1.2055-1.2060	1.2050-1.2055	1.2055-1.2060	1.2050-1.2055
0.05 cent	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055
1 cent	1.1050-1.1055	1.1055-1.1060	1.1050-1.1055	1.1055-1.1060	1.1050-1.1055
0.05 cent	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055
1 cent	1.0050-1.0055	1.0055-1.0060	1.0050-1.0055	1.0055-1.0060	1.0050-1.0055
0.05 cent	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055
1 cent	0.9050-0.9055	0.9055-0.9060	0.9050-0.9055	0.9055-0.9060	0.9050-0.9055
0.05 cent	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055
1 cent	0.8050-0.8055	0.8055-0.8060	0.8050-0.8055	0.8055-0.8060	0.8050-0.8055
0.05 cent	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055
1 cent	0.7050-0.7055	0.7055-0.7060	0.7050-0.7055	0.7055-0.7060	0.7050-0.7055
0.05 cent	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055
1 cent	0.6050-0.6055	0.6055-0.6060	0.6050-0.6055	0.6055-0.6060	0.6050-0.6055
0.05 cent	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055
1 cent	0.5050-0.5055	0.5055-0.5060	0.5050-0.5055	0.5055-0.5060	0.5050-0.5055
0.05 cent	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055
1 cent	0.4050-0.4055	0.4055-0.4060	0.4050-0.4055	0.4055-0.4060	0.4050-0.4055
0.05 cent	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055
1 cent	0.3050-0.3055	0.3055-0.3060	0.3050-0.3055	0.3055-0.3060	0.3050-0.3055
0.05 cent	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055
1 cent	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055
0.05 cent	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055
1 cent	0.1050-0.1055	0.1055-0.1060	0.1050-0.1055	0.1055-0.1060	0.1050-0.1055
0.05 cent	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055
1 cent	0.0050-0.0055	0.0055-0.0060	0.0050-0.0055	0.0055-0.0060	0.0050-0.0055
0.05 cent	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055
1 cent	0.0050-0.0055	0.0055-0.0060	0.0050-0.0055	0.0055-0.0060	0.0050-0.0055
0.05 cent	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055
1 cent	0.0050-0.0055	0.0055-0.0060	0.0050-0.0055	0.0055-0.0060	0.0050-0.0055
0.05 cent	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055
1 cent	0.0050-0.0055	0.0055-0.0060	0.0050-0.0055	0.0055-0.0060	0.0050-0.0055
0.05 cent	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055
1 cent	0.0050-0.0055	0.0055-0.0060	0.0050-0.0055	0.0055-0.0060	0.0050-0.0055
0.05 cent	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055
1 cent	0.0050-0.0055	0.0055-0.0060	0.0050-0.0055	0.0055-0.0060	0.0050-0.0055
0.05 cent	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055
1 cent	0.0050-0.0055	0.0055-0.0060	0.0050-0.0055	0.0055-0.0060	0.0050-0.0055
0.05 cent	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055
1 cent	0.0050-0.0055	0.0055-0.0060	0.0050-0.0055	0.0055-0.0060	0.0050-0.0055
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1 cent	0.0050-0.0055	0.0055-0.0060	0.0050-0.0055	0.0055-0.0060	0.0050-0.0055
0.05 cent	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055
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0.05 cent	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055
1 cent	0.0050-0.0055	0.0055-0.0060	0.0050-0.0055	0.0055-0.0060	0.0050-0.0055
0.05 cent	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055
1 cent	0.0050-0.0055	0.0055-0.0060	0.0050-0.0055	0.0055-0.0060	0.0050-0.0055
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1 cent	0.0050-0.0055	0.0055-0.0060	0.0050-0.0055	0.0055-0.0060	0.0050-0.0055
0.05 cent	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055
1 cent	0.0050-0.0055	0.0055-0.0060	0.0050-0.0055	0.0055-0.0060	0.0050-0.0055
0.05 cent	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055
1 cent	0.0050-0.0055	0.0055-0.0060	0.0050-0.0055	0.0055-0.0060	0.0050-0.0055
0.05 cent	0.2050-0.2055	0.2055-0.2060	0.2050-0.2055	0.2055-0.2	

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INSURANCES

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Ref.	Price	Offer	+/-	Yield	Gross	Ref.	Price	Offer	+/-	Yield	Gross	Ref.	Price	Offer	+/-	Yield	Gross	Ref.	Price	Offer	+/-	Yield	Gross	Ref.	Price	Offer	+/-	Yield	Gross
Phoenix Assurance Co Ltd						Provident Mutual Life Ass. Assn.	0438 270000					Royal Heritage Life Assurance Ltd - Contd.						Shield Assurance Ltd						Citron Financial Mgmt Ltd					
Phoenix House Reassn Hld	Bristol	(0272) 264641				Wm Williams Rd, Wicklow, Hert 524 000						Wm Williams Rd, Ws 200						27 Berkeley St, London EC2N 3AZ						Brazilian Finance & Co Ltd					
Phoenix Trust Fund						Managed Int.	120.0	250.5	-			H&G Mgt Portfolios	120.5	-				Barclay & Sonnac Ltd	0221 202					100% of Pacific Warmed Co					
Private Equity Fund						Energy Inv.	124.1	248.5	-			HIC Mgt Board	99.8	-				Barclay & Sonnac Ltd	0221 202					London Contact Firms Ltd	020 8 540 5000				
Private Equity Fund						Overseas Equity Inv.	122.5	250.9	-			Govt Bonds	100.1	-				Barclay & Sonnac Ltd	0221 202					London Contact Firms Ltd	020 8 540 5000				
Private Equity Fund						General Inv.	120.0	248.5	-			Govt Bonds	100.1	-				Barclay & Sonnac Ltd	0221 202					London Contact Firms Ltd	020 8 540 5000				
Private Equity Fund						Property Inv.	117.9	235.2	-			Govt Bonds	100.1	-				Barclay & Sonnac Ltd	0221 202					London Contact Firms Ltd	020 8 540 5000				
Private Equity Fund						Private Interest Inv.	120.0	248.5	-			Govt Bonds	100.1	-				Barclay & Sonnac Ltd	0221 202					London Contact Firms Ltd	020 8 540 5000				
Private Equity Fund						Private Inv.	119.0	247.5	-			Govt Bonds	100.1	-				Barclay & Sonnac Ltd	0221 202					London Contact Firms Ltd	020 8 540 5000				
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BRITISH FUNDS

BRITISH FUNDS—Contd

FOREIGN BONDS & RAILS

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LONDON SHARE SERVICE

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NEW YORK STOCK EXCHANGE COMPOSITE PRICES

Closing prices July 28

Continued on Page 37

Continued from previous Page

AMEX COMPOSITE PRICES

**Closing prices
July 28**

OVER-THE-COUNTER

Nasdaq national market, 3pm prices July 28

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FINANCIAL TIMES

Continued on Page 35

WORLD STOCK MARKETS

AMERICA

Digital results help Dow rebound

Wall Street

A BETTER performance by the technology sector yesterday helped the Dow Jones Industrial Average recoup all Wednesday's losses, writes *Janet Bush* in New York.

The index had drifted higher during the morning session, but then spurted in afternoon trading to close 28.63 points higher at 2,082.33, on modest volume of 15.5m shares.

Dealers had partly attributed the wave of selling on Wednesday afternoon to worries about results that were due to be announced by Digital Equipment against a general background of patchy performance by technology companies.

However, yesterday's results came up to analysts' forecasts, and technology stocks moved higher, with favourable effects on the broader market.

The sharp rise seemed also to reflect bargain-hunting after substantial falls recently, a drop in commodity prices and comments on domestic mone-

tary policy by Mr Alan Greenspan, Federal Reserve chairman, to Congress.

Mr Greenspan seemed to imply that this week's GNP figures had not persuaded the Fed of the need for further tightening in monetary policy.

The only economic indicator released yesterday was June personal income, which rose 0.7 per cent, more than the market had expected. That news pushed Treasury bond prices slightly lower.

By late trading, prices were quoted about ½ point down. The Treasury's benchmark 30-year issue fared worse, with a drop of ½ point for a yield of 9.25 per cent. Another factor depressing bond prices was the return of Fed Funds to 7% per cent.

There was little reaction in US financial markets to news that the Bundesbank is raising the Lombard rate by ½ point to 5 per cent, effective today, as this had been widely expected.

Intertec, the retailer and com-

sumer products company, jumped 5¾% to \$67.74, after news of an unsolicited \$64 a share takeover proposal from a company called City Capital Associates LP.

Another large mover was Norton, the abrasives manufacturer. The company's share price slumped 4¾% to \$49.74, as the market reacted to lower than expected second quarter income of \$1.17 a share compared with \$1.07 a year earlier.

Philips NV dropped 1½% to \$14.74, after news of a 44 per cent drop in its profits in the second quarter.

Walt Disney jumped 5% to \$61.14, after the company reported net income of \$165m in its third quarter ended June 30, compared with \$121.8m a year earlier.

York International dropped 1½% to \$57, after Syndergaard withdrew its \$61 a share bid for the company because of anti-trust concerns about product overlaps between the two companies.

Among technology stocks,

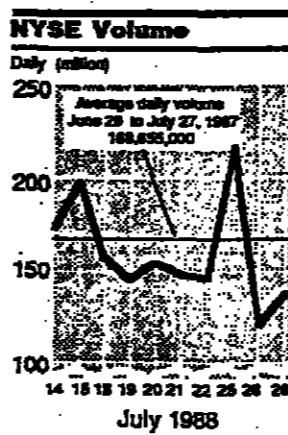
Digital Equipment added 3¾% to \$165.5% and Motorola was up 51 at \$46.1%. Prime Computer, which reported net earnings of 15 cents a share in the second quarter compared with 32 cents a year earlier, dropped 3% to \$13.74.

Chrysler added 3% to \$22% after announcing net earnings in the second quarter of \$1.45 a share compared with \$1.98 a year earlier. The company acknowledged it had sacrificed short-term profit by using aggressive incentive programmes to gain market share in the longer term.

Raychem, the plastics manufacturer, dropped 5% to \$46. Its net earnings in the latest quarter were \$1.52 a share, including a gain of 39 cents from the sale of a subsidiary, compared with 63 cents a year earlier.

First Boston jumped 2½% to \$40%, on rumours of an imminent restructuring of its relationship with Credit Suisse.

McGraw-Hill slipped 34% to \$66, on rumours which appar-



EUROPE

Profits news and rumours enliven lacklustre trading

London

EARLY gains fed by good results from ICI and takeover speculation were parried by rumours of impending rights issues in the financial sector, and the FTSE 100 index edged up just 0.6 to 1,841.3.

Bonds again finished little changed from Wednesday.

ZURICH was virtually unchanged in spite of continued speculation in the insurance sector. The Crédit Suisse index eased 0.3 to 465.4 in thin volume as the long holiday weekend approached.

News from private insurer Rentenanstalt of an agreed bid worth SFr12,000 a share for La Suise sent the listed insurance company up SFr1,50 to SFr12,200. Saurer offered SFr10,000 earlier this week. La Suise has climbed by 6.5 per cent in the past week on take-over news.

MILAN closed steady, with buying in the banking and insurance sectors offsetting weakness in retailers and publishers. The Comit index ended 0.26 higher at 338.41 in fairly thin volume.

The banks are said to be attracting interest both because of rising domestic interest rates, which should help their margins, and because of their long under-performance.

Banca Commerciale ended lower, with Fl 300m at Fl 310, or more than 3 per cent. Analysts described the results as "disappointing" or "disastrous". Brokers James Capel said it was known the electronics group had problems but the severity of their impact on earnings was a surprise. Despite the negative reviews, some demand for Phillips at lower levels was reported later in the day from New York.

Most other internationals ended lower, though there was some interest in the Getronics agreed bid for Datec, which analysts said was evidence of consolidation in the Dutch computer software industry. The two companies were suspended from trading at Fl 27 and Fl 24 respectively.

PARIS ended lower after another thin session, with speculative interest focusing on communications group Agence Havas and turbine producer Precision Mécanique Laval. The OMF 50 index finished off 0.59 at 351.56 and the opening CAC index was 1.4 lower at 322.4.

Agence Havas rose FFr24 to FFr715 after reports that pay TV network Canal Plus, in which it has a stake, was interested in buying Havas shares.

British Mr Robert Maxwell has also been rumoured to be assisting gold stocks, with increasing his stake in recent

days, with his holding now thought to be about 5 per cent.

The wrangle over who would gain control was fuelled by speculation company up SFr1,50 to SFr12,200. Saurer offered SFr10,000 earlier this week. La Suise has climbed by 6.5 per cent in the past week on take-over news.

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The OMF 50 index finished off 0.59 at 351.56 and the opening CAC index was 1.4 lower at 322.4.

Agence Havas rose FFr24 to FFr715 after reports that pay TV network Canal Plus, in which it has a stake, was interested in buying Havas shares.

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